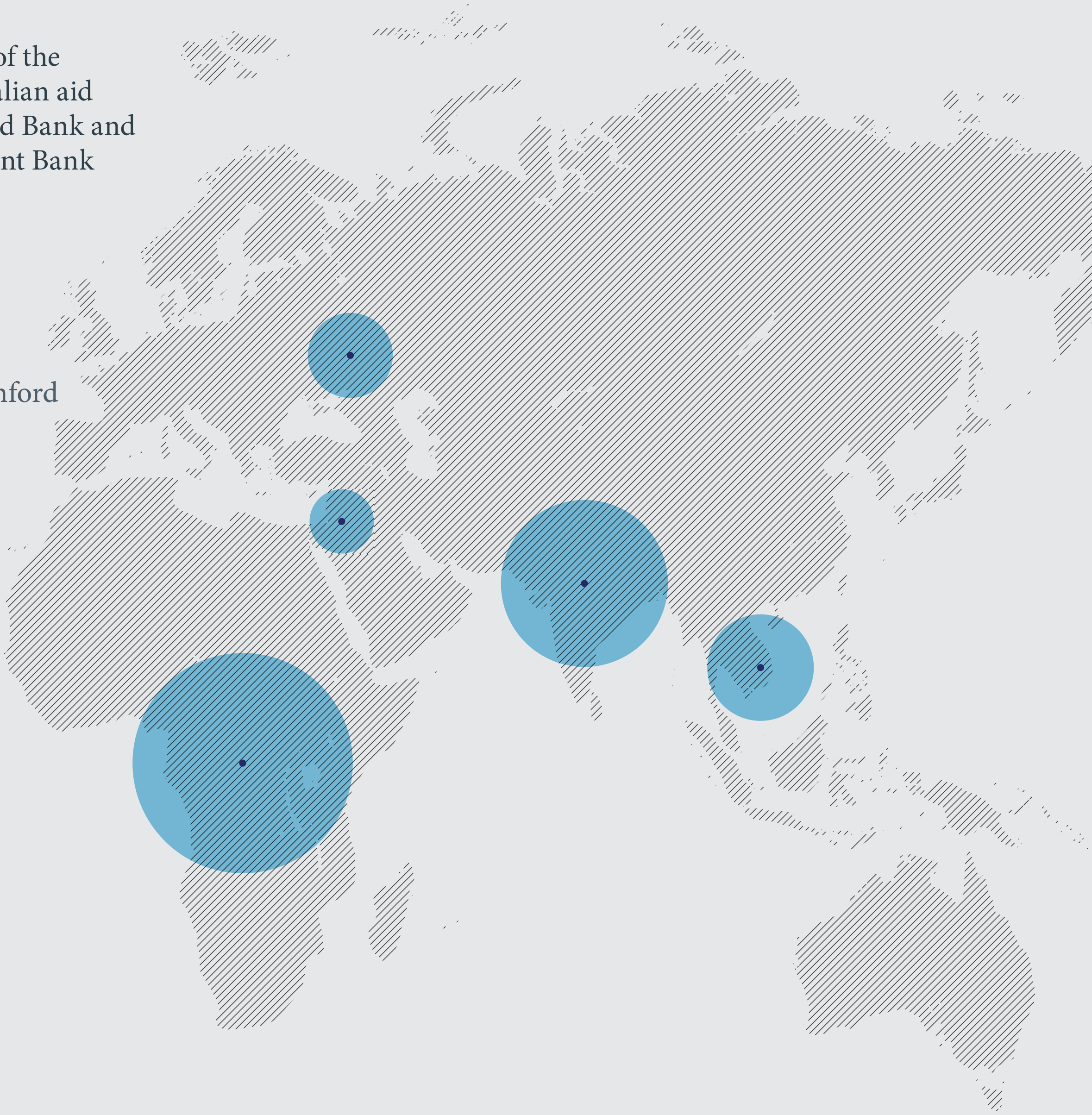
DISCUSSION PAPER

BANKING ON AID

An examination of the delivery of Australian aid through the World Bank and Asian Development Bank



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MANNA GUM Enough for all

Oxfam Australia

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Manna Gum is an independent Christian not-for-profit organisation which is motivated by a vision of a world in which there is enough for all. We seek to promote critical thinking on issues of aid and development, and to build awareness of our shared responsibility to this planet and its people. Manna Gum undertakes research, advocacy and popular education, working across secular and religious spheres.
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Manna Gum

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ABBREVIATIONS

ADB . . . . Asian Development Bank
ADF . . . . Asian Development Fund
AusAID . . . . Australian Agency for International Development
DAC . . . . Development Assistance Committee (of the OECD)
DFID . . . . Department for International Development
GEF. . . . . Global Environment Fund
GFATM (Global Fund) . . . . Global Fund to Fight Aids, Tuberculosis and Malaria
HIPC . . . . Highly-Indebted Poor Countries
IBRD. . . . . International Bank for Reconstruction and Development
IDA. . . . . International Development Association
IFC . . . . International Finance Corporation
IMF. . . . . International Monetary Fund
MDTF . . . . Multi Donor Trust Fund
MDRI . . . . Multilateral Debt Relief Initiative
NGO. . . . . Non-government organisation
OCHA . . . . Organisation for the Coordination of Humanitarian Affairs (UN)
OCR . . . . Ordinary Capital Resources
ODA . . . . Official Development Assistance
OECD. . . . . Organisation for Economic Cooperation and Development
UN . . . . United Nations
UNDP . . . . United Nations Development Programme
UNHCR. . . . . United Nations High Commission for Refugees
UNICEF. . . . . United Nations Children's Fund
WFP . . . . World Food Program

EXECUTIVE SUMMARY

The overall purpose of this paper is to renew discussion within the Australian development community (non-government organisations, government, AusAID, academics and the interested public) about the role of the multilateral development banks — specifically the World Bank and the Asian Development Bank (ADB) — in delivering aid. Currently, these institutions are the pre-eminent partners in Australia's aid program, and if the recommendations of the Independent Review of Aid Effectiveness (hereafter, Independent Review) are followed through, the importance of this role will probably grow.

Until recently, there has been little clear or consistent data that adequately describes the role of the banks in the Australian aid program. The first task of this discussion paper is to present the empirical data that helps us to better understand this role. The second task is to provide an overview of the positive and negative arguments concerning the banks, and who is making them. There have been enough serious and consistent critiques of the style of development embodied by the banks, and their impact on poor people, to warrant a debate about their role in delivering Australian aid.

WHAT ROLE DO THE BANKS PLAY IN AUSTRALIA'S AID PROGRAM?

1. The World Bank and ADB have been regarded as the "key" or "central" partners of Australia's aid program by both Liberal and Labor governments. The privileged role of the banks in the aid program is due to their ability to influence recipient government policy as well as their large scale, knowledge and expertise, economic philosophy, intellectual influence and low transaction costs. In the case of the ADB, the Australian Government can itself have a level of influence that it cannot have in many other multilateral institutions.

HOW MUCH MONEY DO WE GIVE THE BANKS?

2. Other than AusAID itself, the multilateral development banks are the single largest channel for delivering Australian aid. In 2008, Australia directed 17% of its aid program through the World Bank and ADB. In 2009, the World Bank was the single largest recipient of Australian aid at $508 million, or 13.4% of the aid program.[1]
3. Australian aid contributions to the World Bank have steadily increased as a proportion of the aid program over the last decade while aid contributions to the ADB have steadily declined (as a proportion of the aid program) over the same period. Taken together as a proportion of the aid program, the overall trend of contributions to the banks was relatively flat, with a slight increase over the decade. This suggests that, in effect, contributions lost to the ADB have gone to the World Bank.
4. The explanation for (proportionally) declining contributions to the ADB lies in the declining *core contributions* to the Asian Development Fund (the ADB's concessionary credit arm). This is a result of the collective decision-making process of ADB donors in the first half of last decade, and not the decision of the Australian Government alone. Australian *earmarked contributions* to the ADB, that is funding for a designated purpose and determined by AusAID, rose over this same time period that core contributions declined

1. Throughout this paper, figures given for a certain year refer to that *financial year*, so "2009" here refers to July 2008 to June 2009.

5. Recommendations from the Independent Review will, if followed, result in an increase in contributions to both the World Bank and ADB. The review also recommended that Australia join the African Development Bank (agreed to "in principle" by the government), which, if happens, may further increase the proportion of aid delivered through multilateral development banks.

6. There has been a dramatic increase in earmarked funding to the banks over the last decade. In 2009, core contributions made up only 17% of Australia's contributions to the World Bank and 42% of Australia's contributions to the ADB. However, recent replenishment rounds of the International Development Association (IDA) and Asian Development Fund (ADF) are likely to see the proportion of core contributions to the banks rise again. The Independent Review canvassed tripling core contributions to the World Bank and ADB as quickly as possible.

7. The general consensus about "aid effectiveness" suggests that proportionally higher levels of core contributions to multilateral organisations represent better aid. However, such a view depends on an overall favourable analysis of an institution. Where there is substantial critique of an institution, then *greater selectivity of support* (that is, earmarking) allows a greater control over the form and impact of aid channelled through the institution.

8. The two primary forms of earmarked contributions to the banks are *multi-donor trust funds* and *project co-financing*. Multi-donor trust funds are pools of money contributed by a range of donors with a common stated purpose (for example, the Afghanistan Reconstruction Trust Fund, or the Clean Energy Financing Facility). Project co-financing involves smaller, discrete contributions to a specific project being implemented by the bank, often to fund a particular component of the project. AusAID has shown a clear preference for World Bank trust funds to those of the ADB, but has engaged in substantial project co-financing with both banks.

9. *Parallel financing* is another means of supporting the programs and agendas of the banks, where AusAID funds, delivers and administers a discrete sub-project, which is part of a broader bank-identified program. Because money is not directed through the banks, parallel financing is not counted as a multilateral contribution in Australian aid statistics. There is no data on how prevalent parallel financing arrangements are within the aid program.

10. Australia's contributions to multilateral institutions generally (including the banks, UN agencies and other international organisations) have gradually risen over the last decade. In 2009, contributions to multilateral organisations represented 34.3%, over a third, of the aid program. Contributions to the banks and UN agencies made up 95% of this multilateral funding. Funding to UN agencies gradually declined over the last decade, however began to rise again in 2008 and 2009.

HOW IS THE RELATIONSHIP WITH THE BANKS MANAGED?

11. The capacity of AusAID to critically monitor and evaluate the performance and impact of aid directed through the banks is not strong.

12. Until recently, there has been little in the way of a publicly articulated framework that explains how the Australian Government determines its funding relationship with the banks and other multilateral organisations. At the time of writing, AusAID did not have a finalised or publicly released strategy for engaging with multilateral organisations (a draft was written in 2009), nor did it have a framework for monitoring and evaluating multilateral aid.

13. Despite the enormous complexity and spread of the banks' programs and the very large sums involved in supporting them, the Development Banks Section of AusAID had only six full-time positions; another three positions work on monitoring and evaluation of the banks in a different unit. A study commissioned by the Independent Review found that AusAID's multilateral programs were "leanly staffed" and recommended that staffing levels "should be increased quickly and significantly, to at least double their current levels".[2]

14. AusAID is not able to generate key forms of data that help it and the public easily understand the nature of its relationship with the banks. For example, AusAID cannot supply basic disaggregated data on contributions to and through multilateral organisations by type, such as core versus non-core contributions. Data on parallel financing is not captured at all.

15. Recent developments, such as AusAID's entry into the Multilateral Organisations Performance Assessment

2. Dinham, M., "Study of AusAID's Aproach to Assessing Multilateral Effectiveness" (hereafter, "Multilateral Study"), commissioned by the Independent Review of Aid Effectiveness, February 2011, pp.25, 37. (Emphasis in original).

Network (MOPAN), have improved the quality of analysis available to AusAID to monitor the banks, but these still provide little insight into the *actual effect* of aid delivered through the banks.

16. Overall, the Independent Review observed that AusAID lacked “a coherent and consistent evidence base and narrative” by which it could assess the effectiveness of multilateral organisations, and recommended that AusAID undertake a review that would allow it to systematically rate multilateral organisations against certain criteria.[3]

WHAT ROLE SHOULD THE BANKS PLAY IN AUSTRALIA’S AID PROGRAM?

17. The merits and effects of the banks’ roles in international development have been the subject of a long-running and deeply polarised debate. Within official development circles — among governments and in aid bureaucracies — the banks enjoy a high level of support; however, outside of this there is a high level of criticism of the banks’ activities, including grave allegations about their role in creating poverty.

18. Those arguments favourable to the banks generally cite the following reasons:

    a. **Poverty and economic growth:** poverty is most effectively eliminated through economic growth. Of all the hundreds of international development organisations, the banks are almost universally considered to be those most able to facilitate economic growth.

    b. **Aid harmonisation:** there is a need to reduce “donor burden” on recipient countries through more concentrated multilateral aid. The size of the banks, their convening power and their capacity to absorb and deliver large quantities of aid makes them a sensible choice for such concentrated multilateral aid. Moreover, the banks already play a central role in aid coordination within the international aid architecture.

    c. **Growing aid volumes:** the rapid growth in aid budgets presents new challenges for donors in efficiently and effectively disbursing funds. Again, the size and capacity of the banks to absorb large amounts of money makes them a natural target for increased funding.

    d. **Effectiveness and results:** there is a widespread view that the banks are effective and efficient deliverers of aid, especially when compared to the UN agencies. The adoption of results measurements systems by both the World Bank and ADB over the last decade has increased the confidence and satisfaction of donors with their “return for money”.

    e. **Scale and influence:** there is broad consensus that the larger the scale, the more effective the aid: “If two multilateral organisations do equally well […], more resources should go to the one with the greater scale.”[4] Likewise, the level of “influence” and role within the international aid architecture are both considered factors that should positively correlate to the level of support for an institution.

    f. **More aid to Africa and low income countries:** the World Bank provides a higher proportion of its aid to Africa (approximately 50%) and low income countries than donors such as Australia.

19. Those arguments critical of the banks often cite the following reasons:

    a. **Economic philosophy:** the strength of commitment to neoliberal economics within the banks has led to a flawed analysis of poverty and its causes, and this in turn repeatedly leads to the development of assistance programs that do not meet the needs of poor people, and may have, in many cases, actually worsened the conditions of poverty.

    b. **Conditionality and privatisation of services**: despite reforms in recent years, the World Bank continues to place economic conditions on its loans. The types of conditions that have groups in the South most worried are those which require privatisation of basic services, particularly water utilities, health services and education.

    c. **Voice and representation:** despite recent reforms, the governance of the World Bank and ADB is still dominated by the wealthy countries, and this has made them the vehicles of wealthy government interests.

    d. **Knowledge monopolies:** the banks, particularly the World Bank, have come to virtually monopolise

3. *Independent Review of Aid Effectiveness*, Australian Government, April 2011, pp.195-7.

4. Faint, T. and Johnson, D. 2010, *Multilateral Resource Allocation: best practice approaches*, Overseas Development Institute Project Briefing, No.51, November, p.3.

the production of key development statistics such as measures of global poverty and inequality. This data, along with the enormous volume of analysis and policy work generated by the banks, is highly influential in the development world; however, it has long been recognised that both the data and analysis coming from the banks is deeply flawed by endemic ideological biases, which have consistently served to reinforce the economic interests of wealthy economies.

e. **Climate change and energy**: the World Bank is increasingly seeking to position itself as the main institution to manage global climate finance. Many civil society groups campaigning on climate change are worried by the bank's history of carbon-intensive lending and the inclusion of forests in international carbon trading schemes.

f. **Project impacts and accountability**: the existence of strong safeguards policies — that is, policies which mandate the protection of the environment, indigenous peoples and other vulnerable groups — within the banks has seemingly failed to prevent a high incidence of unintended negative impacts from bank-funded projects, particularly in the case of infrastructure projects. Bank processes for identifying, acknowledging and rectifying unintended negative impacts have rarely produced satisfactory outcomes for affected peoples.

IMPLICATIONS FOR AUSTRALIA'S AID PROGRAM

As a paper whose primary purpose is to engender discussion, it would be premature to offer recommendations about the role of the banks in Australia's aid program. Nevertheless, there are a number of implications from above that are worthwhile drawing out.

20. The role of the banks in Australian aid has generally been poorly understood and the inadequacy of data has contributed to misunderstandings. AusAID could improve the publication and presentation of data that can help it and the public to more easily and fully understand the role of the banks within Australia's aid program. This could include disaggregation of core and non-core payments (ideally with disaggregation for trust funds and project co-financing) within the AusAID annual report, and reporting on parallel financing activities.

21. The scale, complexity and high level of critique of the banks make them particularly challenging to monitor and evaluate. AusAID could strengthen its capacity to monitor and critically evaluate the effect of bank programs in developing countries. This could include:

    a. finalising and releasing the Multilateral Engagement Strategy and developing a monitoring and evaluation framework for multilateral aid;

    b. engaging with third party, civil society input, especially from project-affected peoples, as part of the formal process for monitoring and evaluating the work of the banks;

    c. increasing staff resources monitoring the banks.

22. Aid debate in Australia has tended to focus on volumes, sectors and technocratic processes. There needs to be a more serious discussion of the ways in which we deliver aid within the Australian development community. While there may be reason to challenge the pre-eminence of the role of the banks in Australian aid, it is not possible to critically assess them against other channels of aid (UN agencies, non-government organisations (NGOs), AusAID-managed private contractors, other government departments) without similar critical discussions of those modalities.

23. It is clear that the banks will continue to play a large role in Australia's aid program for some time. However, the graveness, breadth and longevity of critique of the banks warrants that these critiques be addressed more seriously by AusAID and the government. In particular, the growing recognition (even within the World Bank) of the ideological tunnel vision of the banks, and the ways in which this has determined bank programs and sidelined alternate possibilities, should provoke a critical re-assessment of the appropriateness of some of the banks' policies and programs. In this context, maintaining a higher ratio of earmarked to core funding should not be ruled out as an appropriate way of more selectively engaging with the banks.

INTRODUCTION

Looking from the bottom up, the world at the end of the first decade of the new millennium is a world in crisis. The fallout from the Global Financial Crisis is still impacting the budgets of many developing countries and constraining their ability to deliver essential services such as health and education to poor people. The cyclical factors that led to the food crises of 2007 and 2008, with food riots across three continents, subsided for a time yet the structural factors behind the food crises remain, and at the time of writing, food prices were again climbing to new highs. All the while, changes in climate across the globe are already having severe impacts on poor and vulnerable people, with the prospect that these impacts will only intensify in coming decades.

Amid this world in crisis, the Australian Government and other donors have made commitments over the last decade to increase the volume of international aid tasked with alleviating the plight of poor people; and while many donors have retreated somewhat in the wake of the global recession, the Australian Government has so far maintained its commitments. Australian aid spending has risen substantially — from $2.2 billion in 2005 to $4.3 billion in 2011 — and both major parties have committed to increasing the overall aid level to 0.5% of gross national income (GNI) by 2015, which is projected to be in the realm of $8 billion.[5]

With such urgent need and rapidly rising aid volumes, the critical question then becomes, how should aid be used to best serve poor and vulnerable people? Too often, the simplistic assumption is that more aid going overseas is immediately a good thing. Or perhaps a little more nuanced, that more aid in certain sectors, such as health, education or water, is obviously a good thing. Unfortunately, the relationship between aid and its effect on the lives of poor people is not that simple. Large amounts of aid can very easily be spent to no effect. Even worse, aid can too easily result in doing harm to poor people's lives.

With an eye to the immense and complex challenges facing the aid program, in late 2010 Foreign Minister Kevin Rudd commissioned the first independent public review of the aid program since the Simons Review in 1996. The Independent Review of Aid Effectiveness (hereafter, the Independent Review) was conducted between November 2010 and April 2011, and the government handed down its response to the review — *An Effective Aid Program for Australia* — in July 2011.

The Independent Review confirmed that one of the main challenges to face AusAID in the coming years will be to effectively spend its growing budget. This rapid budgetary growth is driving a transformation in the way that Australian aid is being delivered. The review noted:

> AusAID is not just growing; it is changing its modus operandi. It is shifting from being a predominantly contracting organisation to one more focused on partnerships with other development actors.[6]

The messy question of how best to deliver aid needs to be the subject of more debate in Australia. The purpose of this paper is to begin to open up some of this debate. It begins with the observation that other than AusAID itself, the single most important "partnership" in delivering Australian aid is reserved for the World Bank and the Asian Development Bank (ADB).

The central role of the multilateral development banks in Australia's aid program was essentially affirmed by the Independent Review, which canvassed a tripling of their core contributions and recommended that Australia become a member of a third, the African Development Bank. As far as the review was concerned, there is no dispute that these are effective and deserving channels for increasing levels of Australian aid. But is such an uncritical view justified?

There is not much literature on the role of the banks, or multilateral institutions generally, in the Australian aid program. However, a perusal of what there has been over the last few years would leave the reader with two impressions: (i) that Australia's contributions to the banks are negligible compared to other nations; and (ii)

5. Throughout this paper, figures given for a certain year refer to that *financial year*, so "2005" here refers to July 2004 to June 2005.

6. *Independent Review of Aid Effectiveness* (hereafter, *Independent Review*), Australian Government, April 2011, p.15.

that contributions to multilateral organisations generally (including the banks) have been declining over the last decade. Neither of these is true.[7]

Up until recently, there has been little clear or consistent data that adequately describes the role of these two banks in delivering Australian aid, and there is great scope for confusion. The first aim of this paper is to present as clearly as possible the empirical data that helps us to better understand this role (Section 1). The sheer size of this role demands that we understand it better.

The second aim of this paper is to consider whether this pre-eminent role for the banks poses any problems. Section 2 provides an overview of the positive and negative arguments concerning the banks, and who is making these arguments. It contends that there have been enough serious and consistent critiques of the style of development embodied by the banks, and their impact on poor people, to warrant that their role in delivering Australian aid should be a matter of debate for those who care about global poverty and Australian aid.

This is a discussion paper, not a lobbying or campaigning document. It does not conclude with a series of recommendations for government, and indeed the government is not the primary audience. To claim any particular set of answers in this paper would be to forestall what is needed most — a serious debate. What place should the banks have in delivering Australian aid? How best should they be used? What should they not be used for?

Section 3 therefore seeks to draw out some of the implications of the discussion here, as well as a range of questions and issues around which a debate could be structured. The intended audience for this paper, and the hoped-for participants in this discussion, are the Australian development community; that is, all who care about aid, including NGOs, members of the government and AusAID, academics, and concerned citizens.

7. For further discussion about the representation of multilateral aid trends in the literature, see the Appendix.

SECTION 1

WHAT ROLE DO THE BANKS PLAY IN AUSTRALIAN AID?

This section attempts to describe the various aspects of the role that the banks play in delivering Australian aid. It discusses the reasons why the Australian Government looks to the banks to play such a key role and how the aid partnership with the banks is managed. Most importantly, this section attempts to quantify precisely how much Australian aid is delivered to, or through, the World Bank and Asian Development Bank (ADB), comparing this with some other key ways of delivering aid. It describes the various mechanisms by which this is done, and discusses the ways in which these mechanisms are used by the banks.

1.1

WHAT ARE THE WORLD BANK AND ADB?

When considering the role of the World Bank and ADB in aid delivery, one of the most important things to understand is that they are indeed banks. They function in the world of capital markets and their core business is to provide credit. However, they are banks with a complex structure and a complex set of roles to play.

Firstly, both the World Bank and ADB play a key role in the international financial system, and hence are often referred to as international financial institutions (IFIs). The World Bank, along with its sister institution the International Monetary Fund (IMF), was created in 1944 to ensure international economic stability in the post-war era, under what is know as the Bretton Woods System. The ADB was established in 1966, and also eventually came to assume an important role in international finance.

With the rapid expansion of private credit following the Asian Economic Crisis of 1997/8, there was some conjecture that the international financial institutions were becoming increasingly irrelevant to the international financial system. However, the Global Financial Crisis of 2008 and the accompanying credit contraction firmly re-established a central role for these institutions and led to an unprecedented increase in funding commitments to them, including from the Australian Government.[8]

Secondly, as well as occupying key roles in the international financial system, the World Bank and ADB play central roles in the international aid architecture, for which they are also referred to as multilateral development banks (MDBs). While both banks have always had a mandate to promote development, it is only since the late 1990s that this has been explicitly linked to an over-arching goal of poverty reduction. Both banks, but especially the World Bank, have increasingly been identified as central to the task of donor coordination, the catchcry of international aid since the Paris Declaration on Aid Effectiveness in 2005.

Thirdly, the World Bank and ADB are "multilateral" institutions in the sense that they are owned and governed

8. *Budget Statement: Australia's International Development Assistance Program 2009-2010*, May 2009, p.13. Hereafter, budget statements will be referenced as *Budget (year)*.

by member governments. In both cases, governments subscribe capital to the institution, and the proportion of their shareholding determines the proportion of the vote which they have in the governance of the institution. This has meant that the governance of both banks has been dominated by wealthy countries and this is a major source of criticism (see Section 2).

Although the World Bank is substantially larger than the ADB, the Australian Government has invested more capital in the ADB than it has in the World Bank. In 2008, Australia held shares in the World Bank valued at US $2.95 billion whereas its subscribed capital at the ADB was US $3.17 billion.[9] This is probably because Australia has a chance to play a more significant role in the governance of the ADB than it ever could in the much larger World Bank. Whereas Australia's shareholding at the World Bank represents only 1.55% of total capital, giving it a voting power of 1.5%, at the ADB Australia is the fifth largest shareholder, with 5.77% of total shares and 4.97% of the vote, entitling it to a permanent seat on the twelve-member Board of Directors. Australia also represents a constituency of smaller members, giving it a total 7.56% of votes on the Board of Directors.[10]

1.1.1
THE BANKS AS DELIVERERS OF AID

Both the World Bank and ADB have two primary pools of finance, one of which provides credit at low interest rates to poorer countries and one that provides credit at commercial rates to middle-income countries. In both cases the commercial credit arm is the larger. At the World Bank, concessionary credit is provided by the International Development Association (IDA) and commercial credit by the International Bank for Reconstruction and Development (IBRD). At the ADB, concessionary credit is provided by the Asian Development Fund (ADF), and commercial credit provided by its Ordinary Capital Resources (OCR). Both banks have dedicated funds that provide grants, and the World Bank also has a number of other specialised arms, including the International Finance Corporation (IFC) that provides credit to the private sector (see Figure 1).

Only the credit that is provided by the concessionary arms of the banks — that is, IDA for the World Bank and ADF for the ADB — and grants made by various arms of the banks are counted as official development assistance. For this reason, the bulk of Australia's aid that is directed to the two banks is directed to IDA and ADF, however, smaller amounts are also contributed to other arms of the banks, such as the grant funds, the IFC or the World Bank's debt relief funds. In this paper, discussions of contributions to the "World Bank" and the "ADB" refer to *overall contributions* to the various arms of these institutions, except where otherwise specified. Furthermore, this paper only considers contributions made *through the aid program and counted as official development assistance*. Non-aid contributions by the Australian Government to the World Bank and ADB are not considered here.

The International Monetary Fund (IMF), the sister institution of the World Bank, could also be considered within the terms of reference of this paper as it is a recipient of Australian aid. However, the sums of money directed to the IMF *through the aid program* are comparatively small (representing only 0.01% of contributions to the World Bank between 2006 and 2008) and are not worth considering here.

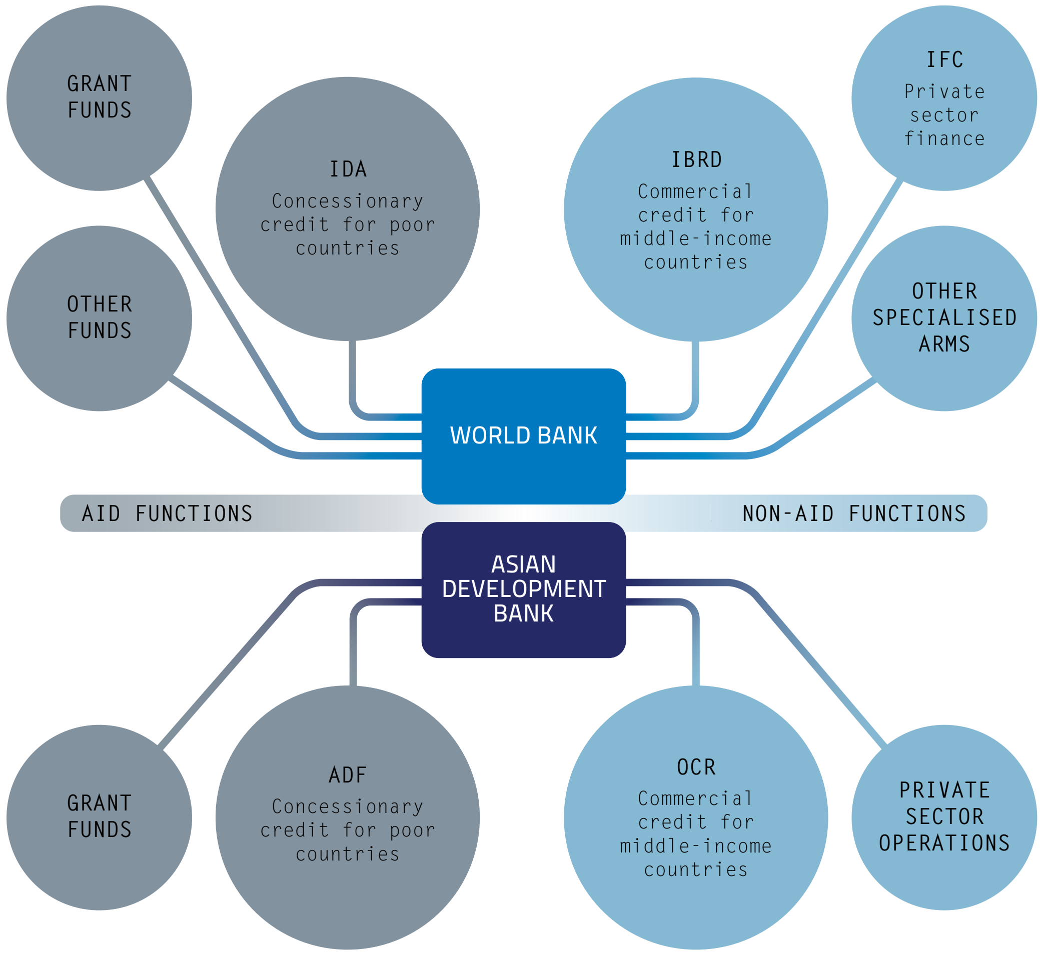
The World Bank and ADB deliver aid in poor countries in three main forms: low-interest or no-interest loans to governments for large programs, projects or government budgetary support; grants for smaller projects and programs; and technical assistance providing specialised research or expert advice to governments. Both banks have also recently started to provide small grants to civil society organisations, however, these are a small part of their operations.

Other than technical assistance, the banks theoretically do not implement projects in developing countries but finance the governments in those countries to implement projects. In practice, however, when project structures, bank oversight requirements and the role of technical assistance are taken into account, it can sometimes seem that the banks, rather than the recipient government, are the primary implementer.

9. Government shareholdings with the banks should not be confused with aid money directed towards them. Generally, subscribed capital at the banks is disassociated from the aid budget and managed through Treasury rather than AusAID.

10. Votes on the board of the ADB are rarely formalised; nevertheless, a higher percentage of shares still translates into higher proportional influence. Australia belongs to a constituency that also includes Azerbaijan, Cambodia, Georgia, Hong Kong (China), Kiribati, Federated States of Micronesia, Nauru, Palau, the Solomon Islands and Tuvalu.

● Figure 1: Aid and non-aid functions of the World Bank and ADB's



1.2

WHY DOES AUSTRALIA USE THE BANKS TO DELIVER AID?

The importance of the banks to Australia's aid program has been consistently articulated by successive governments. The 2011 budget statement on the aid program described the World Bank and ADB as "central partners" in the aid program, explaining that:

> The Banks' convening power often allows them to lead donor coordination at country and sectoral levels. Drawing on their technical expertise they undertake innovative analytical work and engage with developing country governments on important and sensitive policy issues.[11]

The 2006 *White Paper on the Australian Government's overseas aid program*, produced under the Howard government, described the banks as "Australia's key partners" and the 2011 Independent Review described the World Bank as a "central partner" and the ADB as a "key partner".[12]

11. *Budget 2011*, p.67.

12. *Australian Aid: Promoting Growth and Stability: A White Paper on the Australian Government's overseas aid program* (hereafter *White Paper*), AusAID, April 2006, p.67; *Independent Review*, p.53.

This "central partnership" between the Australian Government and the banks is consistent with both the Labor Party's foreign policy commitment to enhanced multilateralism, and with donor commitments to improve donor coordination, made in the 2005 Paris Declaration on Aid Effectiveness. However, neither a commitment to multilateralism nor donor coordination necessarily predetermines the strength of connection between Australian aid and the banks that can be observed. These functions could just as well be served through the UN system (as is the case with Nordic donors),[13] and indeed the support of the UN system has risen significantly under a Labor Government compared to the Howard years. Nevertheless, it is clear from both the rhetoric and the level of funding that the banks occupy a pre-eminent position within the aid program. There are multiple reasons, both stated and others that can be inferred, that explain the Australian Government's strong preference towards the banks:

- **Bank influence:** as is clear from the previous statements, the fact that the banks, and especially the World Bank, wield considerable influence almost anywhere in the world, both with recipient governments and with other donors, is critical to their perceived merit in delivering Australian aid. However, influence itself is meaningless unless there is some agreement about the aims for which that influence is exerted.
- **Scale:** because of the banks' financial scale, partnering with them allows the Australian Government to be involved in aid activities that would otherwise be well beyond its financial capacity — the "more bang for your buck" argument.
- **Knowledge and expertise:** the huge amount of technical research and analysis produced by the banks concerning aid and development issues is another important attraction for the Australian Government as a comparatively small donor. However, once again the preference for the banks is directly related to the *forms of knowledge* being produced. The UN agencies are also major producers of knowledge on aid and development issues, however, this knowledge has had far less impact on Australian aid policy.
- **Economic policy:** central to the privileged place of the banks in Australian aid is their role as the premiere advocates of a global economic order to which Australian governments (of both major parties) have firmly staked Australia's economic interests. Economic self-interest and frameworks for aid cannot be disentangled here — the policies that the Australian Government believes will reduce poverty are one and the same as those that it believes will benefit Australian trade and commercial interests.
- **Intellectual influence:** the World Bank is perhaps the single most important external intellectual influence on the formation of Australian aid policy. Much of the Australian Government's framing of both problems and solutions in international development is based on World Bank data and policy analysis, which is the "near-monopoly provider" of key development statistics (see Section 2.3.4). The ready uptake by Australia of World Bank knowledge can be explained significantly by its coherence with Australia's international economic policy.
- **Australian influence:** in the case of the ADB, one motivation for Australia's high level of engagement may be the level of influence that Australia can have there. As the third largest donor and fifth largest shareholder with the ADB, Australia has a weight of presence on the ADB Board of Governors that it cannot have with the World Bank or UN agencies.
- **Transaction costs:** Australian governments have traditionally been reluctant to invest in aid administration, and there is little doubt that from AusAID's perspective, disbursing large sums of money to multilaterals is a much cheaper way of delivering aid (especially compared to small NGO projects).

13. Collectively, Sweden, Norway and the Netherlands give the UN system more than double what they give to the World Bank. DAC, Statistical Annex of the *2010 Development Co-operation Report*, Table 15.

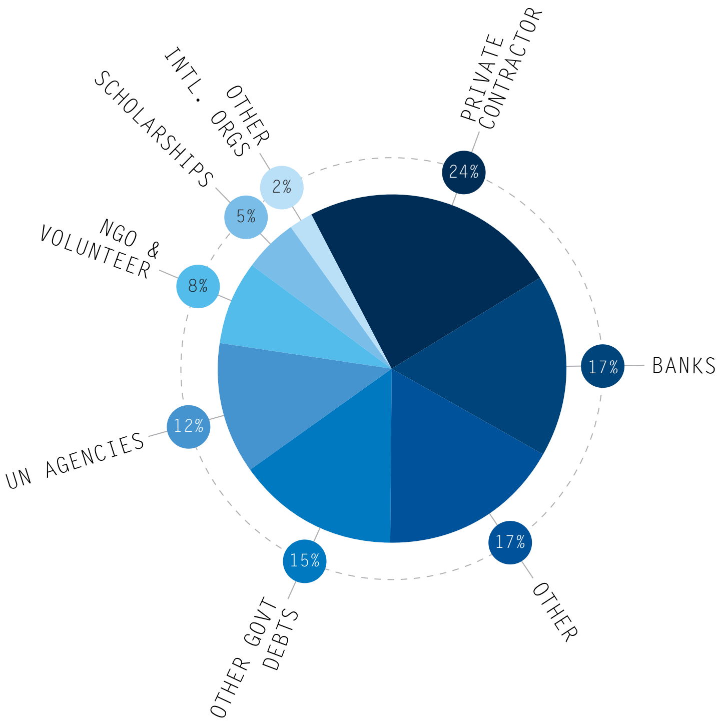
1.3
HOW MUCH MONEY DO WE GIVE THE BANKS?

Other than AusAID itself, the multilateral development banks are the single largest channel for delivering Australian aid.

In 2008, the most recent year for which there is full data, Australia delivered over half a billion ($529 million) or around 17% of its aid program through the World Bank and ADB (see Figure 2).[14] In that year, only AusAID's directly implemented programs, managed by commercial contractors, played a larger role in delivering Australian aid.[15] Although Australia directed money to around 30 UN agencies in 2008, the overall amount of aid delivered through the UN system (12%) was not as significant as that directed to the banks. Aid contributions directed to NGOs and volunteers in 2008 had almost doubled over the preceding two years, yet constituted less than half of that directed to the banks.

However, AusAID data does not account for all of the aid directed towards programs and projects led by the banks. *Parallel financing* arrangements with the banks (see Section 1.3.4) are not counted as multilateral contributions in Australian aid statistics. There is no data to indicate how prevalent such parallel financing arrangements are, or what they amount to in annual contributions.

● Figure 2: Who delivers Australian aid? (2008)



Source: Statistical Summary; Education ATPR; 2008 DAC Review.[16]

14. Figures given here include both core and non-core payments made to and through the banks, what the DAC calls "total use" of the multilateral system. Often, reporting of multilateral contributions, such as in the 2008 DAC review of the Australian aid program, only counts core contributions, and therefore gives a lower figure than is reported here. Figures given for the World Bank include contributions to IDA, IFC, HIPC and MDRI.

15. All AusAID-managed projects are open to commercial tender and implemented by what are known as Australian Management Contracts. Companies such as Cardno Acil, GRM International and Coffey International each manage hundreds of millions of dollars worth of AusAID projects. In 2010, these three companies won AusAID contracts to the value of $950 million, equivalent to almost one quarter of the entire aid budget for that year. AusAID, Contracts List: Financial Year 2009-10, provided by senate-listed order, www.ausaid.gov.au/business/contracts_list.cfm.

16. The representation in this chart is an approximation based on multiple data sources and will not be exact. See notes in the Appendix.

Of the two banks, the World Bank is by far Australia's dominant partner. In 2009, the World Bank was the largest single recipient of Australian aid at $508 million (13.4% of the aid program).[17] The second largest recipient was Indonesia at $442 million.[18] Contributions to the ADB in 2009 amounted to $98 million, or 2.6% of the aid program.

Measuring trends in contributions to the banks is complicated, as payments to the banks take several forms:
- core contributions
- multi-donor trust funds
- project co-financing
- debt relief
- other miscellaneous payments

These are discussed in separate sections to follow (except miscellaneous payments). In discussion to follow, it is also argued that parallel financing should be considered a form of contribution to the banks (at present it is not), however, it is not included in the data presented in this section.

The single largest part of contributions to the banks is through *core contributions*, that is, annual lump sums paid directly as general revenue to the banks and used at their discretion. The level of core contributions that donors make to the banks is decided in three-yearly commitments, called replenishments (see page 16). However, although replenishment commitments are nominally for a three-year period, the *actual payments* may be disbursed over a timetable of up to 10 years.

The effect, when looking at the data for these payments, is to show sharp peaks and valleys (see Figure 3), with large payments in some years and small payments in others. Furthermore, this makes it difficult, when looking at the data, to discern the influence of recent decisions versus decisions made a number of years before.

AusAID data shows that over the last decade *overall* contributions to the World Bank have taken an increasing share of the aid program (see Figure 3). In 2009, overall contributions to the World Bank (not including parallel financing) amounted to 13.4% of the overall aid program, compared to an average over the decade of 10%. The dotted blue line in the graph in Figure 3 shows the overall trend of World Bank contributions. On the other hand, contributions to the ADB, while rising in absolute terms, have declined over the decade when measured as a *proportion* of overall official development assistance (ODA).[19] In 2009, contributions to the ADB (not including parallel financing) amounted to 2.6% of ODA compared to an average over the decade of 4.8%.

While the proportional rise in contributions to the World Bank is not surprising given the Australian Government's identification of it as a "key partner" in a time of rising aid volumes, the proportional decline in contributions to the ADB, the other "key partner", is perhaps unexpected. Excluding 2001 to 2003, for which the data is somewhat anomalous, there is nevertheless a clear, consistent decline in contributions to the ADB over the decade. The explanation for the decline lies primarily in the declining *core contributions* to the ADF, which is a result of the collective decisions of ADB donors and not the Australian Government alone. The decline in the second half of the decade probably reflects a time lag of funding decisions made by ADB donors earlier in the decade, a time when there was some donor discontent with the pace of reform at the ADB.[20] It is important to note that *earmarked contributions* to the ADB, determined by AusAID, rose over this same time period (see Section 1.3.1).

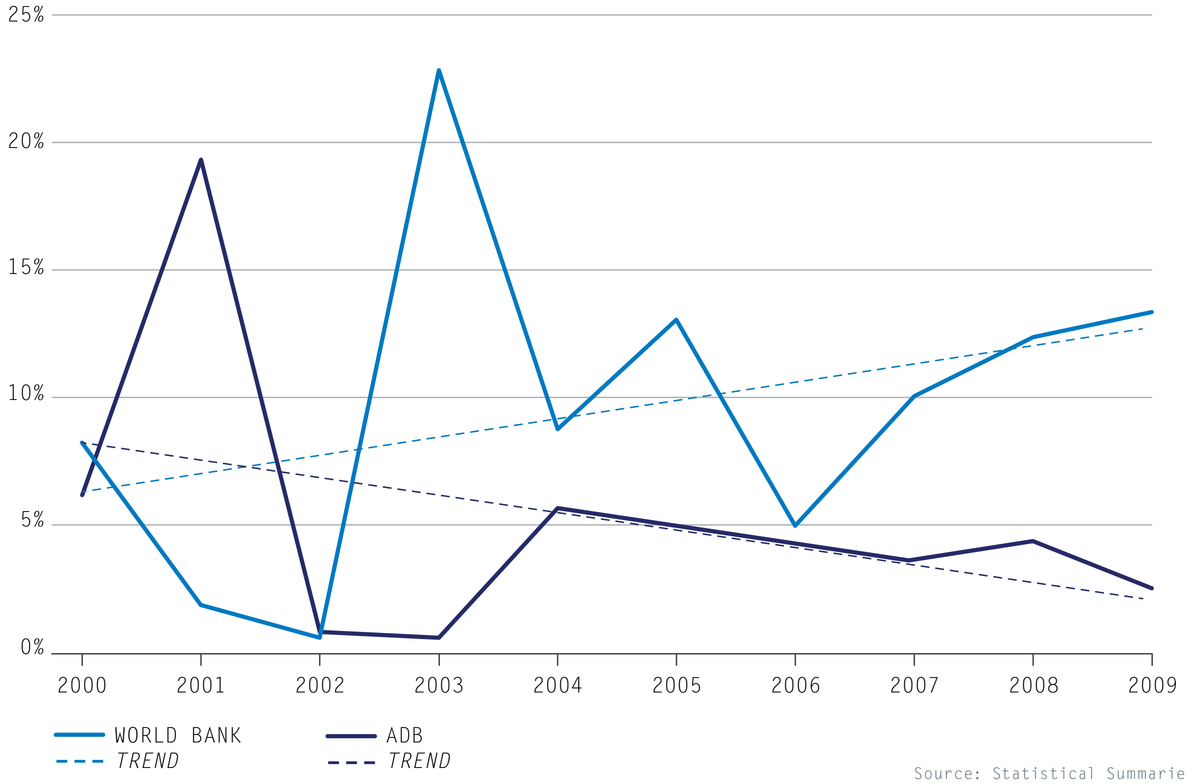
17. Technically, the World Bank is a channel of aid and not a recipient; however, thinking about it in this way does provide an interesting comparison with other parts of the aid program. Furthermore, the institutional reality of aid is that money directed *through* an institution also equates to *support for the institution itself*, and in this sense there is some meaning in referring to the World Bank as a "recipient". The DAC Report on Multilateral Aid also refers to multilateral institutions as "recipients".

18. *Statistical Summary*. There may be a small amount of double counting in the comparison of the World Bank to Indonesia as some money channelled through the World Bank will have been spent in Indonesia, however, as Indonesia is not a recipient of IDA lending, this will be negligible.

19. The absolute value of contributions to the ADB has been increasing.

20. See, for example, Treasury 2003, *Australia and the International Financial Institutions 2002-03: Annual Report to the Parliament*, pp.12-13, 42.

● Figure 3: Contributions to World Bank and ADB as a proportion of Australian aid



Source: Statistical Summaries.

In the most recent round of replenishment negotiations for the IDA and ADF, Australia made significant increases in its funding commitments to both banks. In 2007, Australia committed $583 million to IDA 15, a 50% increase on the previous round, with payments commencing in 2009.[21] In IDA 16, finalised in December 2010, Australia committed to increase replenishments by a further 30%.[22]

In 2008, Australia committed $333 million to ADF X (with first payments beginning in 2010), 60% more than the previous replenishment round.[23] In addition to this, following the Global Financial Crisis, Australia agreed to contribute to a general capital increase of up to 200% for the ADB, requiring an estimated US $197.6 million in additional ODA payments over a 10 year period from 2011.[24] Although there is not yet sufficient data to compare with previous years, it is likely that these increases will reverse the ADB's declining position within the aid program.

Besides likely rises in the share of aid going to the World Bank and ADB, the proportion of aid delivered through multilateral banks may well grow further, as the Independent Review formally recommended that the Australian Government become a member of the African Development Bank. This recommendation was agreed to in-principle in the government's response, "subject to the outcome of a detailed assessment". [25] Whether contributions for the African Development Bank cut in to the budget available to the World Bank and ADB, or are additional to it, will remain to be seen.

21. IDA15 was the largest expansion in donor funding in IDA's history, supplying an increase of US $9.5 billion over the 14th Replenishment. Treasury, *Australia and the International Financial Institutions 2007-08: Annual Report to the Parliament*, p.20.

22. *Independent Review*, p.189.

23. AusAID, *Annual Program Performance Report for the Multilateral Programs 2007-8*, pp.13, 16; *Budget 2008-09*, p.56.

24. *Budget 2009-10*, p.66.

25. *An Effective Aid Program: Making a real difference - Delivering real results*, Australian Government, July 2011, p.60.

REPLENISHMENT OF IDA AND ADF

The level of core contributions to the World Bank (IDA) and ADB (ADF) is determined in three-yearly rounds, called "replenishments". At the time of writing, the most recently completed replenishment rounds were IDA 16 and ADF X.

Replenishments are long and complex high-level negotiation processes involving the bank, donor countries and recipient countries, where funding commitments are entered into and policy reforms discussed. This is one of the key opportunities for donors to try and influence the banks, and it is at this time that the Australian Government makes a decision on the level of its core contributions to the banks. Mostly, this decision is determined by a "burden-sharing" arrangement among donors, with donors maintaining their same *proportional position* as contributors to the banks, and deciding collectively whether to increase, decrease or maintain funding levels. This means that decisions about levels of core funding to the banks are an essentially conservative process, with donor countries acting in concert.

Australia has maintained a consistent burden share of the ADF (ADF VI to ADF X) over the last decade at 6.49%, making it the third largest ADF donor (behind Japan and the United States) over this time.

Australia's burden share of IDA funding remained constant at 1.46% from 2000 to 2008 (IDA 12 to IDA 14). Significantly, however, Australia's 50% increase to IDA 15 was also *an increase in Australia's IDA burden share* from 1.46% to 1.8%, moving Australia from being the 15th largest contributor to the 12th largest contributor, and this at a time when IDA was already receiving a historic increase from other donors (see Footnote 21). In IDA 16 Australia maintained its burden share of 1.8% (despite a 30% increase on the previous round) but somehow managed to slip up the rankings to become 11th largest contributor.

1.3.1

CORE CONTRIBUTIONS VS. EARMARKED CONTRIBUTIONS

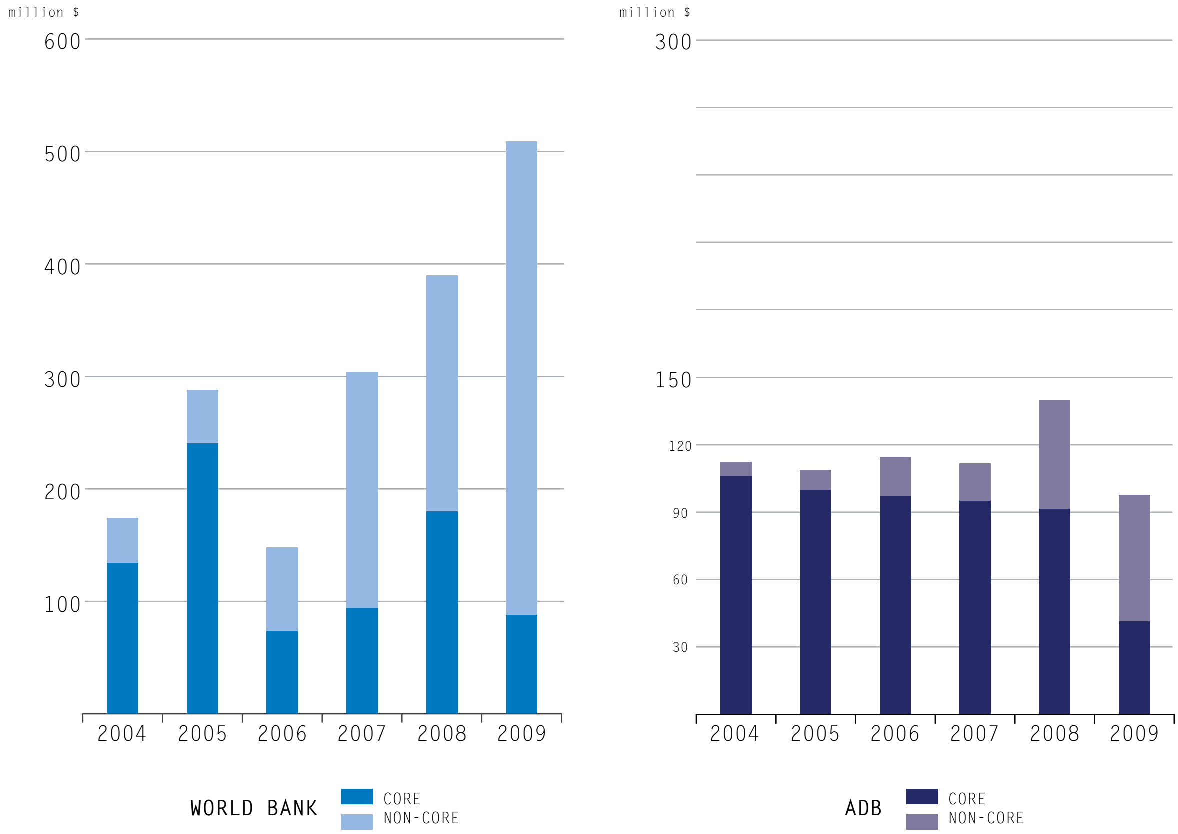
There are a number of mechanisms through which aid is contributed to the banks. The simplest, and single largest payments, are made through "core contributions", that is, lump sums paid directly to the general funds of the institution, to be used at their own discretion. From the perspective of the banks, this is clearly the preferred mode of payment. Donors can also make contributions to multilaterals that are to be used only for specific purposes, and are therefore referred to as "earmarked" or "non-core" contributions. The two main forms of earmarked contributions to the banks are contributions to multi-donor trust funds (MDTFs) and project co-financing. These are dealt with in detail in separate sections to follow. While not their preferred mode of payment, earmarked contributions have been increasingly pursued by the banks as a means of growing the pool of funds at their disposal.

Over the last decade, the form of Australian contributions to the banks has undergone substantial change. As noted previously, due to burden-sharing arrangements, the level of core contributions to the banks is a reflection of the collective will of the donor community, while the nature of core payments (disbursed over ten-year periods) creates a time lag between decisions and the reflection of decisions in the data. This makes it more difficult to draw clear inferences from the data about the importance of the role that AusAID and the government ascribes to the banks. Australia has maintained its agreed burden share with both banks and shared in the collective decisions of the donor community about levels of funding to ADF and IDA. The increased Australian burden share in IDA 15, that is, to go above and beyond what was already a historic increase for IDA, is therefore a revealing indicator of the importance of the World Bank to Australian aid policy.

In the case of earmarked contributions, there is a much more direct correlation between policy decisions and the aid data. Unlike core commitments, which are decided at a senior level within AusAID's Global Programs Branch through inherently conservative burden-sharing negotiations with other donors, decisions about earmarked funding are made through a wide number of different sections across AusAID — most notably through country programs — and at a number of levels. Thus, while there is not necessarily an overarching policy coherence across AusAID as to the funding levels to be directed to the banks, the level of earmarked funding certainly gives a strong indication of the level of endorsement of the banks within AusAID.

Figure 4 shows rising levels of earmarked contributions to both banks, but particularly to the World Bank. The growth in earmarked contributions to the World Bank plays the main role in driving the World Bank's increasing share of the overall aid program (see Figure 4). The growth in Australian earmarked contributions to the ADB, while not as marked, significantly offsets the declining level of core commitments collectively agreed to by donors.

● Figure 4: Core and non-core contributions to the World Bank and ADB



Source: Budget; Statistical Summaries.

In both cases, by 2009 the balance of core versus non-core payments had shifted substantially. In that year, core contributions made up only 17% of Australia's "total use"[26] of the World Bank, and 42% of Australia's total use of the ADB. Taken together, only about 21% of Australia's contribution to the banks in 2009 was made as core contributions. The extent of this shift is indicative not so much of a decline in core payments (although there was some decline in payments to the ADB) but rather the rapid rate of growth in earmarked contributions to the banks.

Compared to other donors, Australia demonstrated a notable preference for earmarking contributions to multilaterals generally. According to figures of the Development Assistance Committee (DAC) for 2008, Australia made the second lowest level of core contributions to multilaterals out of all DAC donors, and the second highest level of earmarked contributions to multilaterals.[27] According to DAC figures, more than 60% of Australia's multilateral contributions was made through earmarked contributions. Only three other nations earmarked more than half of their overall multilateral contributions.[28]

26. "Total use" is the DAC term to describe both core and earmarked contributions to and through multilaterals.

27. The DAC is the peak body which measures and defines official development assistance for all members of the OECD (Organisation for Economic Cooperation and Development).

28. DAC, *2010 DAC Report on Multilateral Aid*, pp.37-38. It should be noted that this figure includes all multilaterals, not just the banks.

There are strong indications that the proportional decline of core contributions to the banks will reverse in the coming years. The 2009 Draft Multilateral Engagement Strategy made a commitment to increase the proportion of core funding to "high priority multilaterals", recognising that "multilateral organisations need secure, long-term core funding to engage in strategic planning and reform and be responsive to developing country priorities".[29] More significantly, the Independent Review observed that a tripling of Australia's current core contributions to IDA and ADF would be a "sound investment". In the case of the World Bank, for which replenishment commitments had recently been concluded, the review even recommended Australia explore options to "pre-pay existing commitments" to reduce the time-lag in scaling up Australia's contributions. The review observed that a trebling of these commitments would move Australia to IDA's fifth largest contributor, and the second largest contributor to ADF, only a little behind Japan.[30] While not addressing the specific recommendations with regard to the banks, the government's response to the review agreed in principle that core funding to multilaterals should be "significantly increased as a share of total funding".[31]

The rationales given in the Independent Review for such a radical increase of core funding were primarily framed in terms of the needs of the Australian aid program. It observed that Australia's bilateral aid programs did not have the capacity for delivering a rapidly growing aid budget, and that a rapid escalation of core funding to multilaterals such as the banks would provide "valuable breathing space" for such capacity to be developed. Furthermore, it noted that increased core funding would simultaneously reduce fragmentation in the aid program (one of the key problem areas identified by the review) while also increasing aid spending in regions such as Africa and the Caribbean without increasing the organisational cost to AusAID.[32]

What is the significance of core funding versus earmarking for the quality or effectiveness of aid? The general consensus about "aid effectiveness" that is represented by the Paris Declaration and the Accra Agenda tends to suggest proportionally higher levels of core contributions to multilateral organisations represents better aid. This is because core funding provides more predictability to the institution (and by extension to recipient countries), has lower transaction costs, and is disbursed according to the strategic priorities of the institution, whereas earmarking can tend to dilute the strategic focus of an institution. In short, core funding gives an institution greater scope to do what it wants to do.

However, the extent to which this enhances aid effectiveness depends on the overall critical analysis of the institution being funded. As the Independent Review notes: "Core funding requires strong alignment in overall objectives between the partner organisation and AusAID. It also demands greater confidence in the partner's abilities". For example, in 2008 85% of Australia's contributions to the UNDP was in the form of earmarked funding.[33] This reflected a view within AusAID that there was a high level of inefficiency and overlap within the UN system, thus resulting in a preference for *selective* rather than *global* support of these institutions.[34] Thus, earmarking funds allows a donor to continue to partner with institutions of which it is otherwise critical.

Currently, there is indeed a strong alignment between AusAID and the banks and a high degree of confidence in them. Within the general consensus on aid effectiveness, this suggests a proportional increase in core funding to these institutions would represent better aid. However, a contrary argument might be posed by those with a different analysis of the banks and their role in improving the lives of poor people. Both the World Bank and ADB are subject to significant critique in a number of areas coming from different quarters (see Section 2). Such critics might argue that if the banks are to be supported through the aid program, then *greater selectivity of support* (that is, earmarking) would at least allow a greater control over the form and impact of aid channelled through the banks.

29. AusAID 2009, Draft Multilateral Engagement Strategy for the Australian Aid Program, 2010-2015, October, p.3.

30. *Independent Review*, pp.198-199.

31. *An Effective Aid Program*, p.61.

32. *Independent Review*, p.185. The review considered such increases of core contributions as warranted on the grounds of the "strong track recored" of institutions like the World Bank and ADB, and that "Australia can be confident these organisations will use core funding effectively".

33. DAC, *2010 Multilateral Aid*, p.104.

34. This view has since shifted. See Section 1.3.6.

1.3.2
TRUST FUNDS

One of the increasingly important mechanisms for making earmarked contributions to the banks is through the use of multi-donor trust funds (MDTFs).

MDTFs are pools of money contributed by a range of donors, usually bilateral donors but sometimes also private sector and philanthropic donors, with a common stated purpose (for example, the Afghanistan Reconstruction Trust Fund, or the Clean Energy Financing Facility). These funds are held in trust by either the World Bank or ADB[35], and the overall governance of the funds is accomplished by a joint committee or council with representatives from the various donors. However, the management and administration of the funds is nearly always undertaken according to the internal procedures and protocols of the banks.[36]

The World Bank began using MDTFs in the 1990s and found them a useful means of leveraging large amounts of extra donor financing within their realm of control. In 2009, the World Bank was managing a portfolio of more than 1,000 trust funds disbursing US $6.9 billion per year. This amounts to an extra 50% of concessional finance that was available to the World Bank, in addition to the US $14 billion of the IDA.[37]

From a donor perspective, MDTFs give more selectivity over the use of their funds than by simply directing them as core contributions to banks, although they sacrifice the control they would have through a bilaterally implemented project. The loss of such control is particularly acceptable to a donor where the trust fund offers a way of disbursing the risk of failure or corruption in complex post-crisis situations, or of being able to contribute to forms of activity for which a single donor's funds may be insufficient (such as financing clean energy).

The ADB has also increasingly used MDTFs to leverage more donor finance, and increasingly has sought to do this along thematic, rather than geographic, lines (for example establishing a Water Financing Trust Fund and a Clean Energy Financing Trust Fund).

- Figure 5: Australian contributions to World Bank-administered trust funds 2006-2008

Theme	No. of trust funds supported	Value of support ($m)
Post-crisis	5	$56.9
Health	4	$30.5
Trade and private sector	10	$25.2
Climate change	3	$19.4
Disaster and emergency	3	$7.4
Education	2	$2.6
Infrastructure	1	$1.3
Other	13	$26.1
TOTAL	41	$176.6

Source: Senate Estimates Committee (Foreign Affairs, Defence & Trade), February 2009.

35. Some UN agencies also manage multi-donor trust funds.

36. Davis, T. 2008, *World Bank 'Post-Crisis' Multi-Donor Trust Funds: An Independent Report*, Oxfam Australia, March, p.26.

37. World Bank 2009, *The World Bank Annual Report 2009*, p.59.

Although AusAID has contributed to the trust funds of both banks, there has been a clear preference towards using World Bank funds. Between 2006 and 2008, Australia made contributions to 41 World Bank-administered trust funds (including those of the IFC), amounting to $176 million (see Figure 5). Over the same time, Australia contributed to only three ADB-administered trust funds, amounting to a total of just over $12 million.

1.3.3
PROJECT CO-FINANCING

Project co-financing is another common means by which donors direct earmarked funds to the banks. Whereas contributing to multi-donor trust funds (also considered a form of "co-financing") involves directing large sums of money into a general fund, which are then spent on multiple projects and programs, project co-financing involves smaller, discrete contributions to a specific project being implemented by the bank. Often the co-financed contributions fund a particular component of the project.

For example, in 2007 Australia committed US $14.5 million to an ADB road construction and improvement project in Laos — the Northern Transport Network Improvement Project — with an overall cost of US $88 million. The ADB contributed US $27 million of this, with the balance made up by other donors, in this case, the Republic of Korea and Organization of the Petroleum Exporting Countries (OPEC). Australian aid, paid through the ADB, funded the rural roads and technical studies components of the project, while the ADB and other donors funded the main highway upgrading works. The ADB managed and administered the overall project.

It is not known how much is directed to the banks each year in the form of project co-financing as AusAID does not keep this data. However, we can make some inferences using other data. In 2008, Australia made a total of $258 million of non-core contributions to the World Bank and ADB.[38] Of this, we know that $128 million was paid to multi-donor trust funds, which leaves $130 million, or roughly half, of the non-core payments for that year unaccounted for. While some of this $130 million would have been paid in a range of miscellaneous payments to the banks, it seems probable that the larger part represented contributions in the form of project co-financing, although how large we cannot say.

● Figure 6: Australian project co-financing with the ADB

Year	No. of projects	Commitment ($m)
2006	10	$41.1
2007	9	$84.4
2008	13	$17.8
2009	22	$75.8
TOTAL	54	**$219.1**

Source: ADB Annual Reports (Vol.2, Statistical Annex).

Project co-financing forms a major part of Australia's relationship with the ADB. Data from the ADB shows that between 2006 and 2009 AusAID partnered in 54 co-financed projects with the bank, with overall commitments to the value of $219 million (see Figure 6). This figure does not correlate to yearly expenditure as it refers to multi-year commitments that are unevenly disbursed. Nevertheless, we can say that over four years, Australia made commitments averaging $54 million each year in project co-financing.[39] When we compare

38. *Budget*; *Statistical Summary*. See Appendix for discussion on calculation of non-core contributions.

39. Note that this figure is for *commitments*, which are typically multi-year commitments, and does not give an indication as to the actual disbursements in any given year.

this with the *average* total contribution to the ADB over this time — $116 million per year — we can see that the contribution made through project co-financing is clearly significant. AusAID's 2008 performance report for multilateral programs states that Australia has been the largest grant co-financer of ADB projects.[40]

AusAID is highly selective in its co-financing partnerships with the ADB. Of the 54 projects listed, all but three were located in the Mekong egion or Pacific Island countries. This indicates AusAID is strategic about where and when it partners with the ADB. There was also a degree of selectivity of the sectors in which AusAID partnered with the ADB. Almost half (26) the projects listed were in the areas of transport, water or energy, with the greatest number in transport (16); another seven projects were in public sector management, five in health and four in private sector development.

The World Bank does not publish any aggregated data on project co-financing with specific donors, however, a selective comb of the World Bank's online database for the years 2007–2009 found 12 projects co-financed with AusAID, with Australian commitments to the value of $149.5 million, or an average commitment of around $50 million per year. This probably under-represents the true figure.[41]

1.3.4
PARALLEL FINANCING

As well as project co-financing, AusAID will, from time to time, engage in "parallel financing" with the banks. Parallel financing typically occurs when a bank identifies a large project with multiple components, and then seeks other donors to fund, administer and implement discrete components of the overall project. Unlike project co-financing, no payments are made to the bank. Instead an agreement is made to coordinate what are effectively separate projects.

For example, between 2000 and 2007 AusAID provided parallel financing as part of the ADB's Basic Education (Girls) Project in Laos. Under this "project", ADB spent US $20 million building school facilities while AusAID spent US $4.3 million in teacher and curriculum development. While conceived as an overall package, each was implemented separately. Such a mechanism allows AusAID to support the programs of the banks while "preserving the Australian brand".[42]

There is no data to indicate how prevalent such parallel financing arrangements are, and what they amount to in annual contributions. Currently, AusAID does not track parallel financing; neither do the banks.

Parallel financing arrangements such as this are not counted as multilateral contributions in Australian aid statistics as no payment is made to the banks. Nevertheless, parallel financing is given in support of projects that are identified and designed by the banks, and included in their reporting on the project, and need to be considered when examining the role of the banks in Australia's aid program. Even if not counted as a multilateral contribution in the *Statistical Summary*, there is a case to be argued that AusAID should at least be reporting on parallel financing arrangements within its annual report.

1.3.5
DEBT RELIEF

Each year a portion of the Australian Government's contribution to the World Bank is earmarked to go towards debt relief through the World Bank's Heavily Indebted Poor Countries (HIPC) initiative. This initiative started in 1996 and was amended in 1999. The initiative allows eligible countries with very high debt burdens to receive staggered reduction of their debt payments if they follow a series of "conditionalities". These conditionalities usually include implementing measures to target poverty, but also include broader economic conditionalities along the lines of privatisation of services and liberalisation of trade. Since 1996, US $72 billion of debt relief has been extended through the HIPC initiative.

40. AusAID, *Annual Program Performance Report for the Multilateral Programs 2007-8*, p.17.

41. World Bank, Projects and operations, searchable database, http://web.worldbank.org/WBSITE/EXTERNAL/PROJECTS/0,,menuPK:115635~pagePK:64020917~piPK:64021009~theSitePK:40941,00.html

42. AusAID, Core Group Recommendations Report for a White Paper on Australia's aid program, Companion Volume, December 2005 pp.7-29.

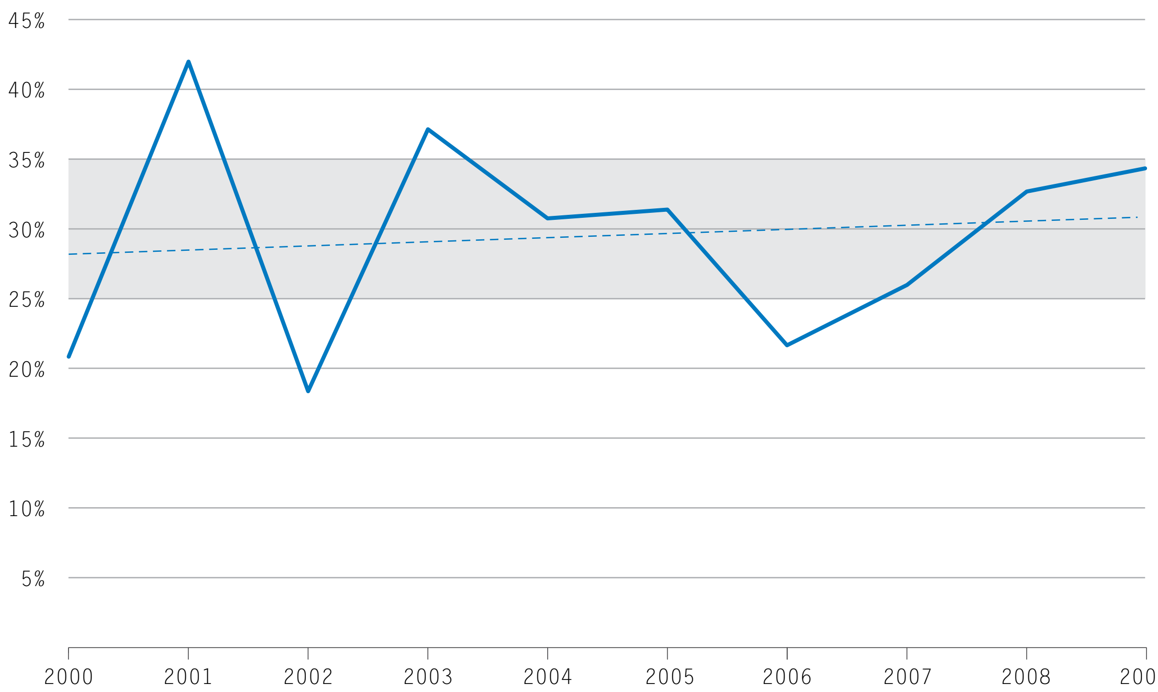
As a nation that has given limited aid credit, Australia's contribution to debt relief has been similarly small. For three years from 2003–2005, Australia contributed on average about $3.5 million to the HIPC initiative through the aid program, a little more than 1% of its overall contribution to the World Bank. From 2006–2008 this increased, presumably taking a lead from G8 commitments made at Gleneagles, jumping up to annual contributions of around $14.5 million, or around 6% of Australia's overall contribution to the World Bank for those years. In 2009 and 2010, Australia's annual contribution to HIPC increased again, to around $22.6 million.[43]

In 2007, Australia also paid $136 million to the Multilateral Debt Relief Initiative (MDRI), also managed by the World Bank, to cover Australia's contribution for 10 years up to 2016. The MDRI was established after the 2005 G8 meeting to provide deeper debt relief to countries that had completed the HIPC process, after criticism that the HIPC initiative had delivered too little debt relief too slowly.

1.3.6
CONTRIBUTIONS TO OTHER MULTILATERALS

How do contributions to the banks compare to contributions to multilateral institutions more generally? Despite annual fluctuations, *the trend* (as represented by the dotted line in Figure 7) in overall multilateral contributions (including to banks, UN agencies, global funds, Commonwealth and regional organisations) shows a steady rise in payments over the decade. Between 2000 to 2009, *the average* proportion of Australian aid directed to multilaterals each year was 29.1%. In 2009, contributions to multilateral organisations represented 34.3%, over a third, of the aid program.[44] In the 2009 Draft Multilateral Engagement Strategy, AusAID articulated for the first time a target band for the proportion of aid to be directed to multilaterals, set at "between 25 and 35 per cent" (shown in light shading on the graph in Figure 7).[45]

● Figure 7: Overall contributions to multilaterals as a proportion of Australian aid



Source: Statistical Summaries.[46]

43. Data for contributions to the Heavily Indebted Poor Countries intiative and Multilateral Debt Relief Initiative are found in *Budget Statements* and the *Statistical Summaries* for the relevant years.

44. The Independent Review and the Government response both represent multilateral contributions reaching 40% and higher for the years 2008 to 2010, however this is misleading as it is a percentage of *AusAID* expenditure, and not overall ODA. *Independent Review*, p.64; *An Effective Aid Program*, p.53.

45. AusAID 2009, Draft Multilateral Engagement Strategy, p.2.

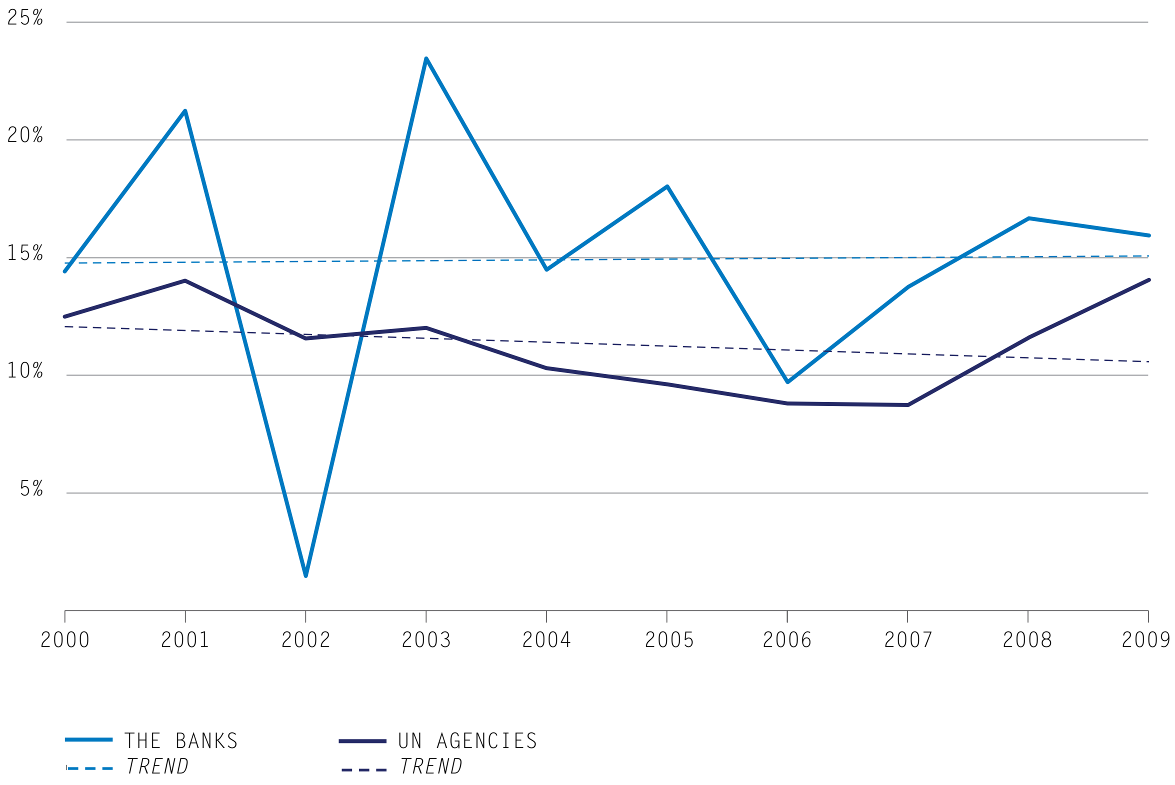
46. This data includes Commonwealth, international and regional organisations, as well as the banks and UN agencies, as listed

The lion's share of overall multilateral contributions is taken up by the banks and UN agencies. The myriad of other international and regional institutions (another 30 agencies) receive comparatively negligible amounts (4.3% of ODA in 2009). Contributions to UN agencies took a downturn in the middle of the decade (see Figure 8), reflecting the Howard government's growing ambivalence towards the UN system. These grew again in recent years, reflecting the Rudd government's increased commitment to the United Nations. By 2009, the *overall trend* was for a slight decrease in contributions to UN agencies, despite a resurgence of contributions in 2008 and 2009.[47] By comparison, the trend of contributions to the banks, as a proportion of the aid program, was relatively flat, with a slight increase over the decade. This suggests that, in effect, contributions lost to the ADB have gone to the World Bank.

The 2009 Draft Multilateral Engagement Strategy confirmed that AusAID was ramping up its commitment to the UN system. Under the *UN Partnership for the Millennium Development Goals*, announced in 2008, AusAID committed to increased multi-year core funding ($200 million over four years) for seven priority UN agencies: United Nations Children's Fund, World Health Organization, United Nations Population Fund, United Nations Development Fund for Women, United Nations Development Programme, United Nations Office for the Coordination of Humanitarian Affairs, and UNAIDs. Whether this translates to increased overall amounts to these institutions or a shift in balance from earmarked to core funds, remains to be seen.

Figure 9 shows the relative contributions to all multilaterals in 2008 and 2009; it particularly demonstrates the dominance of the partnership with the World Bank, but also the recent growth in support for UN agencies.

● Figure 8: The banks vs. UN agencies as a proportion of Australian aid

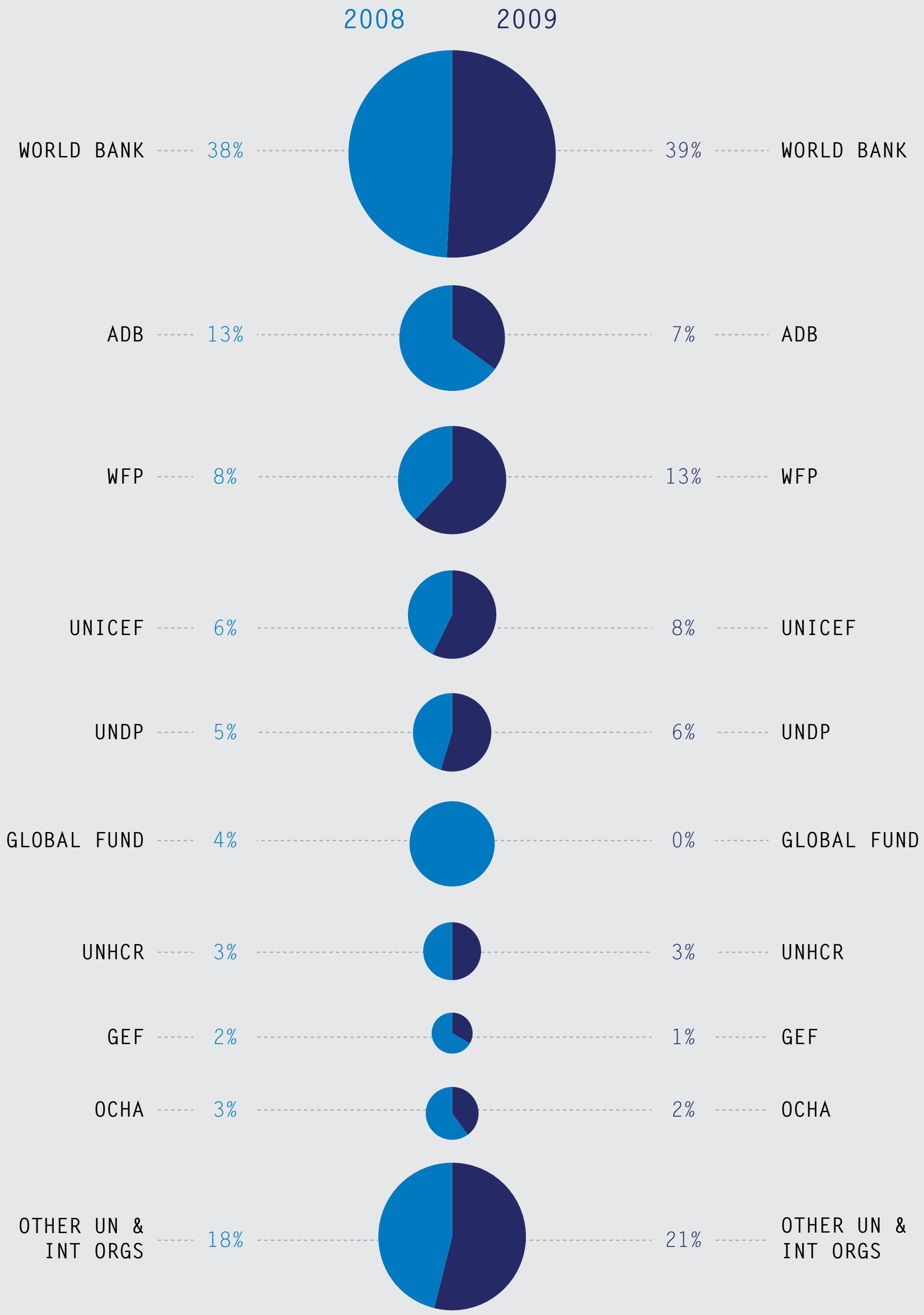


Source: Statistical Summaries; Senate Estimates.

in Table 17 of the *Statistical Summaries* (Table 18 in earlier years).

47. This went against the overall recent trend among DAC donors for a decline in contributions to UN agencies, however, this trend only measures core contributions, while data shown for Australia measures both core and non-core. It is likely that Australian core contributions to UN agencies have also been declining, being offset by non-core contributions. DAC, *2010 DAC Report on Multilateral Aid*, para. 63.

● Figure 9: Aid contributions to multilateral organisations in 2008 and 2009



Source: Statistical Summaries.

1.3.7

SUMMARY: HOW MUCH MONEY DO WE GIVE THE BANKS?

How much?

- In 2008, Australia directed 17% of its aid program through the World Bank and ADB. Other than AusAID itself, this makes the banks the largest channel of Australian aid.
- In 2009, the World Bank was the single largest recipient of Australian aid at $508 million, or 13.4% of the aid program. Contributions to the ADB in 2009 amounted to $98 million, or 2.6% of the aid program.
- Aid contributions to the World Bank have steadily increased over the last decade while aid contributions to the ADB have steadily declined over the same period.
- The overall trend of contributions to the banks as a proportion of the aid program was relatively flat, with a slight increase over the decade. This suggests that, in effect, contributions lost to the ADB have gone to the World Bank.
- Recommendations from the Independent Review will likely result in an increase in contributions to both the World Bank and ADB. The review also recommended that Australia join the African Development Bank (agreed to "in principle" by the government), which, if happens, may further increase the proportion of aid delivered through multilateral banks.

Core vs. earmarked funding

- There has been a dramatic increase in earmarked funding to the banks over the last decade. In 2009, core contributions made up only 17% of Australia's contributions to the World Bank and 42% of Australia's contributions to the ADB.
- Recent replenishment rounds of IDA and ADF are likely to see the proportion of core contributions to the banks rise again. The Independent Review canvassed a potential tripling of current levels of core funding to the banks.
- Between 2006 and 2008, Australia made contributions to 41World Bank-administered trust funds amounting to $176 million. Over the same time, Australia contributed to only three ADB-administered trust funds, amounting to a total of just over $12 million.
- It is not known how much is directed to the banks each year in the form of project co-financing as AusAID does not track this data. Nevertheless, we can infer that a substantial proportion of non-core payments to the banks — perhaps in the realm of 50% — are contributed in the form of project co-financing.
- There is no data to indicate how prevalent parallel financing arrangements with the banks are within the aid program. Parallel financing arrangements are not counted as multilateral contributions in Australian aid statistics.

Overall multilateral contributions

- Contributions to multilateral institutions generally (including the banks, UN agencies and other international organisations) have gradually risen over the last decade. In 2009, contributions to multilateral organisations represented 34.3%, over a third, of the aid program. Contributions to the banks and UN agencies made up 95% of multilateral funding for that year.
- Funding to UN agencies gradually declined over the last decade, but began to rise again in 2008 and 2009.

1.4
HOW DO THE BANKS SPEND OUR MONEY?

The following section presents some basic data on where on the banks spend money that has been contributed by aid funds and on what sectors. It should be stressed that this data provides only background factual context and tells us very little in terms of qualitative analysis. For example, it is often assumed that a higher proportion of aid directed to the poorest countries and to sectors such as health and education equates to "good aid"; those in need of health and education services in the poorest countries do not always agree (see Section 2.3.2).

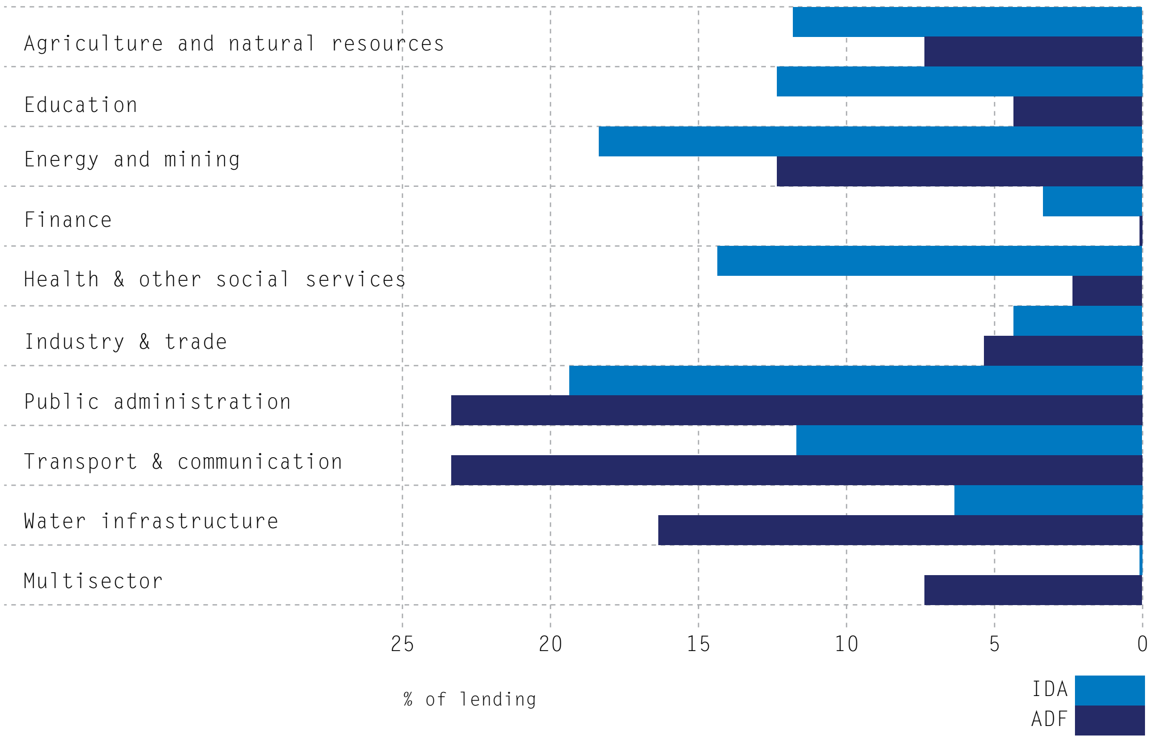
1.4.1
WHAT DO THEY SPEND OUR MONEY ON?

The sheer size and complexity of the World Bank and ADB make it difficult to meaningfully understand or represent all that they do. In 2010, the World Bank was involved in more than 1,800 projects across more than 60 countries.

In 2009, both the World Bank and ADB devoted about 40% of their lending towards economic infrastructure, that is, the combined sectors of transport and communication, energy and mining, and industry and trade (see Figure 10). The other level of some similarity is the high level of support that both banks directed towards what might broadly be called "public administration".

The most striking difference between the two banks was the proportion devoted to the core social sectors of education and health (and other social services): the World Bank directed 26% of its lending to these areas in 2009, compared to only 6% by the ADB.

● Figure 10: IDA and ADF lending by sector, 2009 *(as a percentage of lending)*



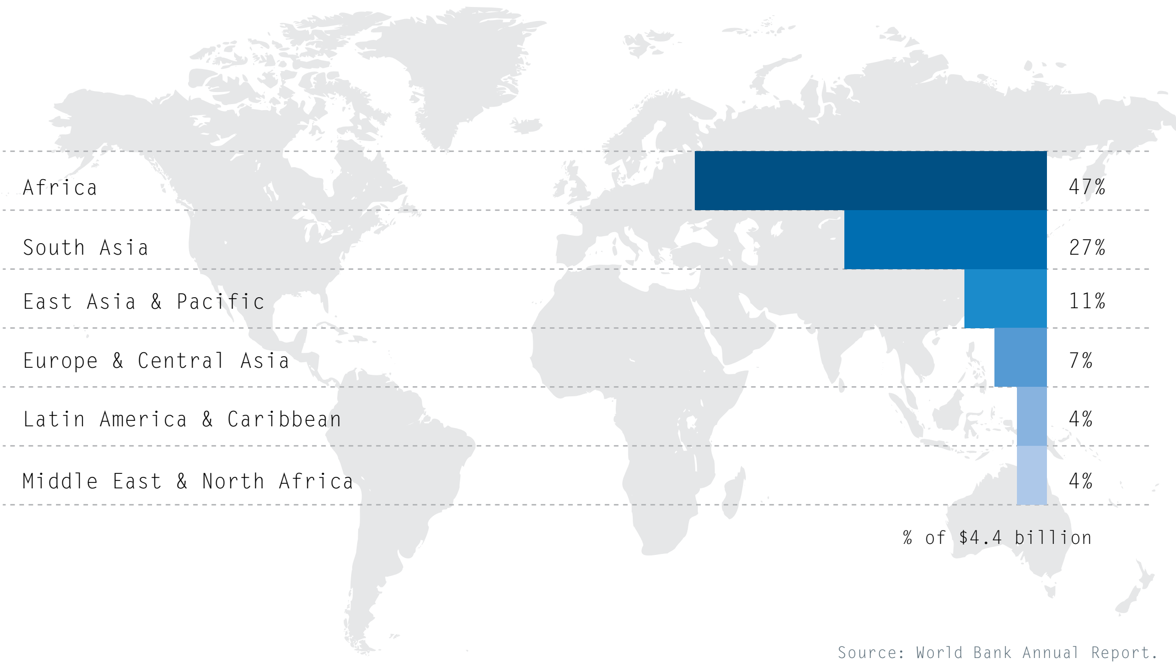
Source: World Bank Annual Report; ADB Annual Report.

1.4.2

WHERE DO THE BANKS SPEND OUR MONEY?

The great bulk of World Bank lending in 2009 (74%) was in Africa and South Asia (see Figure 11) where most of the world's poor people reside. World Bank lending to these regions has gradually increased as a proportion of its overall program over the last decade, while the proportion of lending to all other regions has declined. The greatest increase has been in lending to Africa, from 47% to 56% over the decade. This has largely been in response to a target of at least 50% of IDA financing going to Africa, which was set by the board of the World Bank in the late 1990s. The commitment to Africa was further strengthened at the 2005 G8 meeting in Gleneagles.

● Figure 11: IDA lending by region, 2009



Source: World Bank Annual Report.

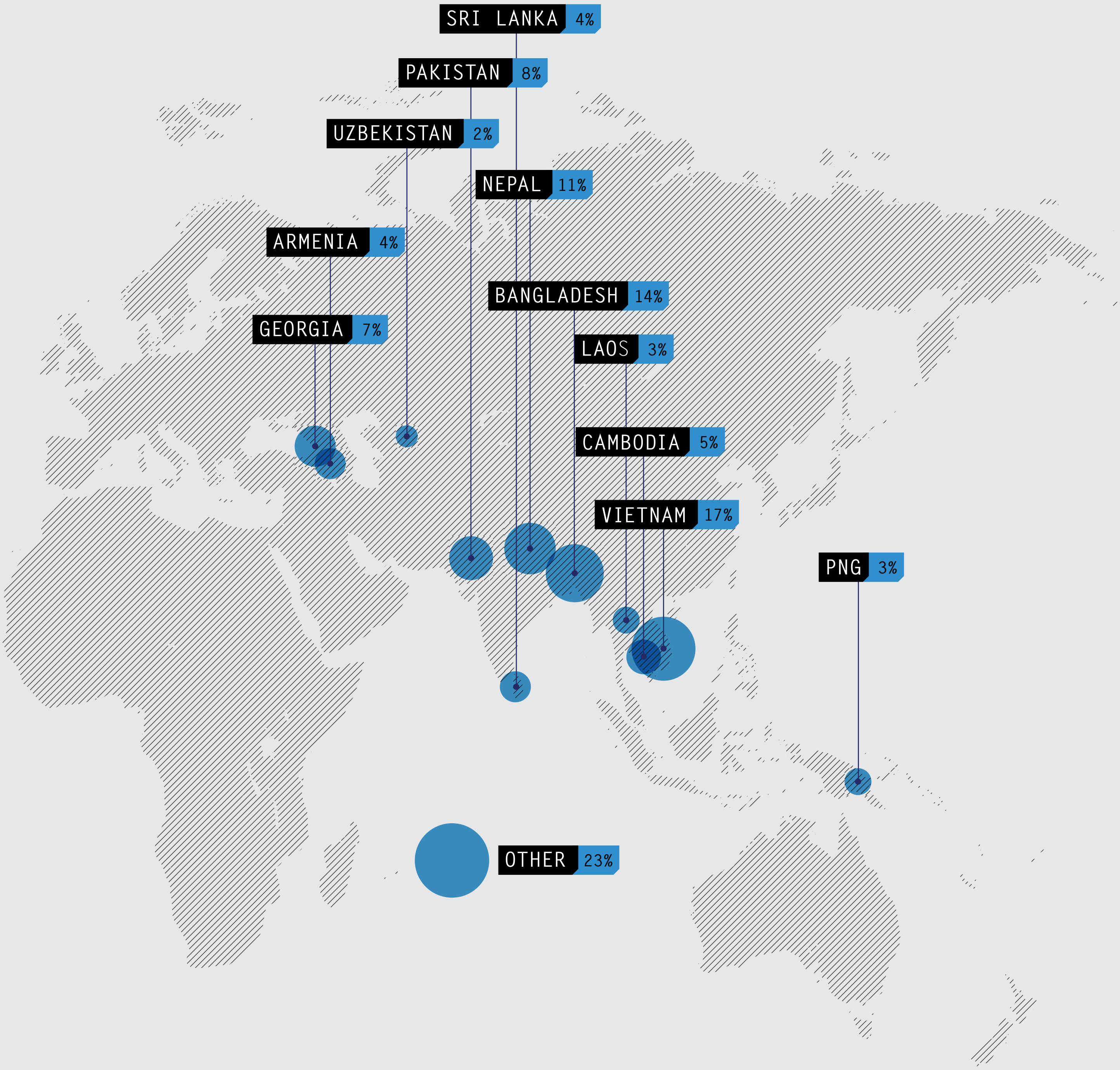
The ADB is by charter focused on the Asia-Pacific region, however, whereas in earlier years it focused predominantly in East Asia and South Asia, ADB borrowing countries now extend from Armenia and Georgia to the South Pacific Island countries. Nevertheless, in 2009 the bulk of ADF finance was directed to South Asia (37%) and the Mekong region (25%) (see Figure 12).

One of the Australian Government's stated objectives in its engagement with the World Bank and ADB is to increase their involvement in Australia's region of strategic interest, particularly the Pacific. In per capita terms, the World Bank and ADB give comparatively little to Pacific Island countries when compared to other nations of similar Human Development Index ranking.[48] ADB lending in the Pacific region has increased in recent years, up from 2.2% of its portfolio in 2000 to 3.6% in 2009. There is no similar data for the World Bank, however, AusAID claims that it has been successful in advocating for the World Bank to increase its staffing presence in the Pacific region.[49]

48. Davis, T. & Westerndorf, J. 2008, "Australian Funding of Multilateral Organisations in the Pacific", Briefing Paper for Oxfam Australia, June, p.10.

49. AusAID 2009, Draft Multilateral Engagement Strategy, p.5.

● Figure 12: Top recipients of ADF finance, 2009



Source: ADB Annual Report.

1.5

HOW DOES AUSAID MANAGE ITS RELATIONSHIP WITH THE BANKS?

Until recently, there has been little in the way of a publicly articulated framework that explains how the Australian Government determines its funding relationship with the banks and other multilateral organisations. In 2009, AusAID developed a draft Multilateral Engagement Strategy, which for the first time articulated a broad framework giving some direction to decisions about funding levels, priority partners and priority areas of concern. At the time of writing, the draft strategy had not yet been finalised or made public.

Similarly, AusAID has lacked, until recently, a clearly articulated framework to guide how it monitors and evaluates its contributions to and through the banks. This is particularly surprising given the large sums involved (more than half a billion dollars in 2008) and increasingly onerous burden of scrutiny and accountability demanded of NGOs for comparatively miniscule sums.[50] The 2007 Review of Development Effectiveness found that AusAID had no reliable information for assessing the performance of multilateral organisations.[51] AusAID took steps to rectify this in 2008, conducting its first Annual Program Performance Review of multilateral organisations, focusing on the two banks and the top five UN partners. Even so, the review only assessed *the performance of AusAID* in pursuing its objectives in relation to the multilateral organisations, as opposed to the performance of the multilateral organisations themselves, and this only with regards to core funding, which in 2008 was not quite half of the overall use of the banks. Since 2008 AusAID has said that it would develop a multilateral monitoring and evaluation framework to give coherency to evaluating the effectiveness of aid delivered through multilaterals. At the time of writing this had not eventuated.

Within AusAID, the relationship with the banks is managed primarily by a dedicated Development Banks Section that is part of AusAID's International Programs & Partnerships Division. This section is tasked with developing policy for AusAID, processing the reporting that comes from the banks, monitoring developments in the banks, and managing key negotiations with them.

Given the volume of money involved in AusAID's partnership with the banks, the enormous volume of documentation that they produce, the complexity of their programs, their geographic and thematic breadth, not to mention the high level of civil society critique, the Development Banks Section is relatively thinly staffed with six full-time positions; another three positions work on monitoring and evaluation of the banks in a different unit. As part of the Independent Review, a specially commissioned study of AusAID's multilateral programs (hereafter, the "Multilateral Study") noted that AusAID's multilateral work was "leanly staffed", and recommended that staffing positions for oversight of multilateral policy and effectiveness "should be increased quickly and significantly, to at least double their current levels".[52] The current level of staffing, together with the absence of a coherent monitoring and evaluation framework, means that AusAID does not have a strong capacity to understand, monitor and evaluate the impact of the huge, complex and diverse programs of the World Bank and ADB.

In 2009, AusAID joined an informal network of "like-minded" donors[53] — the Multilateral Organisations Performance Assessment Network (MOPAN) — to add depth to its analysis. Each year, MOPAN provides an assessment of three multilateral agencies based on analysis of their operations in eight to ten countries. This undoubtedly improves AusAID's access to independent analysis of the banks (and other multilaterals), however, it is far from a deep or rigorous level of analysis. MOPAN assessments are based entirely on "light and rapid" surveys of *the perceptions of members' embassy staff* about these institutions, and, as is stressed in the

50. If it could be done, it would be interesting to compare AusAID monitoring of multilateral and NGO funding using a ratio of staff resources to the dollar value of the funding being monitored.

51. Office of Development Effectiveness 2008, *Annual Review of Development Effectiveness 2007*, Canberra, p.27.

52. Dinham, M., "Study of AusAID's Aproach to Assessing Multilateral Effectiveness" (hereafter, "Multilateral Study"), Commissioned by the Independent Review of Aid Effectiveness, February 2011, pp.25, 37. (Emphasis in original).

53. Current members are Austria, Canada, Denmark, Finland, France, Republic of Ireland, the Netherlands, Norway, Sweden, Switzerland and the United Kingdom. Republic of Korea and Spain are Observers of MOPAN.

assessment reports, "does not cover actual development results on the ground".[54] The Multilateral Study of the Independent Review also noted concerns that MOPAN was a "rather technical process".[55]

Other than MOPAN, AusAID is largely dependent on the reporting of the banks themselves and its own internal processes to evaluate their effectiveness. NGOs have recommended that AusAID incorporates third party information from civil society sources into its monitoring and evaluation of the banks, although there has been little indication that AusAID is inclined to adopt such a measure.[56] More recently, the Multilateral Study of the Independent Review also noted the value of incorporating material from civil society sources as part of an overall assessment of multilateral effectiveness:

> Awareness of the existence of these sources and the information they contain is an important starting point for any serious approach to assessing multilateral effectiveness. They should provide an essential building block for Australia's assessments of multilateral organisations and help underpin comparative judgments between them. It is important that AusAID's [sic] dedicates staff time to synthesising, summarising and bringing to the attention of key players in Canberra, overseas offices and delegations the key information from these sources, to ensure important existing data is not overlooked.[57]

Overall, the Independent Review observed that AusAID lacked "a coherent and consistent evidence base and narrative" by which it could assess the effectiveness of multilateral organisations, and recommended that AusAID undertake a review, similar to one conducted by the UK Department for International Development, which would allow it to systematically rate multilateral organisations against certain criteria.[58] This was agreed to in the government's response to the review, which stated that such an assessment of multilateral effectiveness would provide the basis for decisions on future funding increases.[59]

Beyond its capacity to adequately monitor and assess the banks, AusAID is also constrained in its ability to produce clear and transparent data that can help itself and the public to understand the nature of the relationship with the banks. The 2007 Review of Development Effectiveness noted that AusAID's management system cannot yet generate reliable information on the way that aid is delivered, and this seems to be particularly the case with its ability to generate important data on multilateral contributions.[60] The Multilateral Study of the Independent Review observed:

> It is very difficult if not impossible to interrogate the system to extract information on the entirety of funding (core and non-core) going to a particular multilateral organisation over a defined time period, let alone a more sophisticated breakdown of how that support is segmented (eg sectorally, geographically etc). This information, which is an important baseline for any strategic analysis of AusAID's partnership with multilaterals, needs to be extracted manually by going through each activity with a multilateral component; and even this process could mislead.[61]

At present it does not seem that AusAID is able to generate simple disaggregated data on contributions to and through multilateral organisations by type, such as core versus non-core contributions. Data on parallel financing is not captured at all. Such data is not only important for AusAID's strategic analysis, it is also essential for helping the public to understand the changing ways in which aid is being delivered. As the Multilateral Study notes:

> There is however a widely held civil society perception that multilateral organisations have hitherto had a somewhat easier time than other recipients of aid funds (including NGOs) in the level of scrutiny to which they have been subjected, and hence a welcome for any tightening of the processes for holding multilateral organisations to account. Civil society organisations would like to see this done with maximum attention to transparency.[62]

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54. MOPAN, *The Annual MOPAN Survey 2008: Donor Perceptions of Multilateral Partnership Behaviour at Country Level: Synthesis Report*, 2008, p.vi.

55. "Multilateral Study", p.18.

56. See for example the Manna Gum and Oxfam Australia submissions on AusAID's Draft Multilateral Engagement Strategy, November 2009.

57. "Multilateral Study", p.19.

58. *Independent Review*, pp.195-7.

59. *An Effective Aid Program*, p.55.

60. *Annual Review of Development Effectiveness 2007*, p.25.

61. "Multilateral Study", p.39.

62. "Multilateral Study", p.43.

SECTION 2

WHAT ROLE SHOULD THE BANKS PLAY IN AUSTRALIAN AID?

The previous section shows that the banks play a central role in the Australian aid program. So what? These two institutions have a broad international mandate to deliver development assistance, they have an over-arching purpose to reduce poverty and they espouse a commitment to achieving the millennium development goals. If delivering effective aid that improves the lives of poor people is a matter of using the best technical knowledge on offer, then these two institutions have it in spades.

Unfortunately, delivering effective aid that improves the lives of poor people is not as simple as that. The process of development through development assistance is a process of intervening in complex systems of politics, economics, social structures, cultures and ecology. Despite the obfuscating language of donors, development assistance is often influenced by political considerations and underpinned by economic assumptions — despite best intentions there is always the *potential* to do harm to poor people. It is for this reason that any debate about the best ways to deliver aid must pay close attention to the *actual effect* of development assistance on the lives of poor people.

For well over two decades there has been a raging debate about the effect of the World Bank's lending on poor people, and a similar debate about the ADB has been going for the last decade and a half. Those who are supportive of the banks have the dominant voice in this debate and tend to assume a *modus operandi* that ignores the existence of a debate at all. Certainly, there is nothing in any major Australian aid policy document — whether it be budget statements, the Independent Review or the government's response — which would cause one to think there was anything but universal approbation of these institutions. The Independent Review considered the World Bank and ADB as "obvious candidates" for substantial and rapid funding increases.[63] Nevertheless, the case against the banks is voluminous and the allegations grave. Given the centrality of the banks to Australia's official aid program it is critical that we consider this debate.

What follows is an attempt to outline in the broadest brushstrokes the cases for and against the banks. Given the enormous complexity of each one of these areas, these positions cannot be sufficiently explored here to come to any conclusions about the evidence. But this is not needed or warranted yet. What is needed is to establish that there are some serious issues and disagreements that deserve consideration, and to have a clearer view of what those issues and disagreements are.

63. *Independent Review*, p.198.

2.1
WHO ARE THE PROPONENTS AND CRITICS?

There is no doubt that proponents of the banks hold the dominant position in the international development debate, to such an extent that we might say that it is the "official" position. Indeed, the primary sphere of support for the banks as central players in international development lies in that vast international network we might call "development officialdom". In the world of government ministers, aid and finance bureaucrats, and the host of consultants who cycle through and around the major development agencies, there is little dispute that the banks are essential to the international development architecture and are effective channels of aid worthy of a high level of support (there is debate about the details of this, but not the fact). It is in this sphere that key international forums on aid are held, and from which huge quantities of reports, speeches and media releases are produced, and which in turn form the bulk of media reporting on issues of aid of poverty. And of course, it is in this sphere that decisions are made.

Although it is stating the obvious, it is worth pointing out that central among the proponents are the banks themselves. In particular, the World Bank has developed over the last two decades into a highly effective communicator and a prolific producer of development knowledge. By sheer weight of its volume and data, this has significantly shaped the parameters of the development debate.

Key proponents of the banks can also be found in academic institutions and think tanks that specialise in international development issues. The range of views in this sphere is more diverse and nuanced. However, it would be reasonable to say that in a leading development think tank such as the UK-based Overseas Development Institute, while there are a range of critiques of the banks, there is a larger underlying assumption about the centrality of their role in international aid and development. Academic proponents often combine elements of critique with a view that the position and capabilities of the banks make them essential in the fight against poverty.

Many of the leading academic writers who might be considered "proponents" of the banks are people who come from, and often move back to, the sphere of "development officialdom", straddling a position as development insiders and outsiders. Indeed, it is often this position that lends weight to their work. (The academic authors listed in Figure 13 most supportive of the role of the World Bank — Ritzen and Marshall — both held senior long-term appointments in the bank.)

● Figure 13: A selection of recent academic texts on the World Bank

Howard Stein, *Beyond the World Bank agenda: an institutional approach to development*, University of Chicago Press, 2008.

Catherine Weaver, *Hypocrisy trap: the World Bank and the poverty of reform*, Princeton University Press, 2008.

David Williams, *The World Bank and social transformation in international politics: liberalism, governance and sovereignty*, Routledge, 2008.

Jozef Ritzen, *A chance for the World Bank*, Anthem Press, 2005.

Katherine Marshall, *The World Bank: from reconstruction to development to equity*, Routledge, 2008.

On the other hand, some of the bank's most prominent critics, such as Joseph Stiglitz and Herman Daly, have also been senior bank insiders. On the whole though, academic critics of the banks tend to be development outsiders.[64] Within the literature that is more critical of the banks some consistent themes are explored: the ideological inflexibility of the banks; the politicised nature of the governance, knowledge and policy of the banks; the particular culture and sociology of the banks as institutions; and the way in which all of these have mitigated against development interventions that benefit poor people. A large amount of literature which is, on balance, supportive of the banks, also acknowledges some, if not all, of these themes.

There are a wide range of international NGOs involved in critique, campaigning and/or advocacy concerning the banks, representing thematic concerns spanning across poverty and development, human rights, economic justice and the environment. Although many share information and sometimes work together, such NGOs can sit in quite different places along the abolition-reform spectrum in their underlying attitudes to the banks. On the whole, however, international NGOs, especially those based in Western countries, tend to have a reformist framework and communicate in a far more moderate tone than people's movements in the South.

There are a number of international NGOs or NGO-supported umbrella groups that specialise in monitoring the banks. These groups tend to be highly critical of the banks and seek a deep reform agenda. They perform a few key roles:

1. undertaking and collating research and policy analysis on the banks, including leading or collating case studies;
2. acting as advocacy supports for communities seeking redress from bank activities; and
3. coordinating broader campaigns for bank reform (such as safeguards, accountability or climate change).

● Figure 14: Key international groups monitoring the banks

Group	Base	Website
Bank Information Center	Washington	www.bicusa.org
Bretton Woods Project	London	www.brettonwoodsproject.org
IFIwatchnet	Uruguay	www.ifiwatchnet.org
CEE Bankwatch	Prague	www.bankwatch.org
NGO Forum on the ADB	Manila	www.forum-adb.org

In Australia, a few members of the Australian Council for International Development (ACFID) have undertaken advocacy in relation to the banks, usually regarding specific thematic concerns. The most prominent of these have been Oxfam Australia, Jubilee Australia and World Vision Australia. AidWatch and the Australian Conservation Foundation have also undertaken advocacy in relation to the banks.

Perhaps the most strident criticisms of the banks, and the least heard, are those that come from a vast host of people's movements and civil society organisations across East and South Asia, Latin America and Africa. Often the objections articulated by these groups are simple and visceral, such as the rallying cry of the People's Forum Against the ADB in India in 2006:[65]

> *Enough is Enough!*
> *No to ADB, World Bank and the marauding corporates!*
> *Governments listen to the voices of the peoples!*

Because their message is often articulated in simplistic slogans and sometimes with confusing misunderstandings, the voice of such movements is typically disregarded by decision makers, and even by civil society in the West. Nevertheless, such movements are articulating two basic truths that need to be heard: (i) many poor and

64. Many academic writers would not like to be considered either "proponents" or "critics", but rather as advancing an independent critical analysis. The use of these simple caricatures here has the advantage of summarising with brevity, but cannot really do justice to the academic literature.

65. This was in response to the holding of the ADB AGM in Hyderabad in May 2006.

marginalised people feel that economic changes, of which the banks are key proponents, do not benefit them, and may even make their lives worse; (ii) many poor and marginalised people feel that their voices are not being heard.

2.2
WHAT THE PROPONENTS SAY

There are a number of rationales for supporting aid through the banks; some are generic to aid delivery through multilateral organisations and others are specific to the banks. Much of what follows expands on the reasons already cited in Section 1 for why Australia uses the banks to deliver aid.

2.2.1
POVERTY AND ECONOMIC GROWTH

The foundation of support for the banks lies in the wide (but by no means complete) consensus within the development world, that poverty is most effectively eliminated through economic growth. Of all the hundreds of international development organisations, the banks are almost universally considered to be those most able to facilitate economic growth.[66] This is precisely the view of the Australian Government.[67]

2.2.2
AID HARMONISATION

Many developing countries suffer from the high transaction costs of dealing with a proliferation of different aid donors. For example, in 2005 the Tanzanian Government had to produce more than 2,400 reports to service more than 50 different donors.[68] In accordance with the Paris Declaration aim to improve the harmonisation and coordination of aid, many see increased aid delivery through multilateral agencies as a sensible way of reducing donor burden. By extension of this argument, a concentration of aid among multilateral organisations would further reduce this burden. By this reasoning, the size of the banks, their convening power and their capacity to absorb and deliver large quantities of aid make them a sensible choice for such concentrated multilateral aid. Moreover, the banks, especially the World Bank, already play a central role in aid coordination within the international aid architecture.[69]

2.2.3
GROWING AID VOLUMES

With commitments to increase aid volumes to 0.5% of GNI by 2015, donors such as Australia will increasingly struggle to disburse their aid budgets effectively. Again, a convenient way around this problem is directing a substantial portion of this increased aid budget to multilateral agencies that can absorb it, making the banks a natural choice. Matthew Morris, from the Development Policy Centre at the Australian National University (ANU), argues that Australia should triple its core contributions to the World Bank partly on this basis.[70]

66. For classic articulations of this view, see, for example, Ritzen, Jozef 2005, *A chance for the World Bank*, Anthem Press; or Marshall, Katherine 2008, *The World Bank: from reconstruction to development to equity*, Routledge.

67. This is evident in the 2009-10 budget statement that re-affirms the Australian Government's belief that "economic growth remains the most powerful long-term solution to poverty" (p.2), and then highlights the special role of the World Bank and ADB in responding to declining growth globally (pp.13, 64). This core belief about the role of economic growth is also foundational to both the Independent Review and the government's response. Nevertheless, it must be said that the rhetorical emphasis on the centrality of economic growth in the government's response is significantly diminished from what it was in the 2006 *White Paper* under the Howard government, its effect often being diluted by being located alongside terms such as "sustainable" and "food security". See, for example, *An Effective Aid Program*, p.33.

68. *Independent Review*, p.49.

69. See, for example, a speech by then UK Secretary of State for International Development, Douglas Alexander, to the London School of Economics: "Out of the Bretton Woods: Building a World Bank for the 21st Century", 11 February 2010. AusAID's Draft Multilateral Engagement Strategy (2009) describes the banks as "the cornerstone of the international aid system" (p.8).

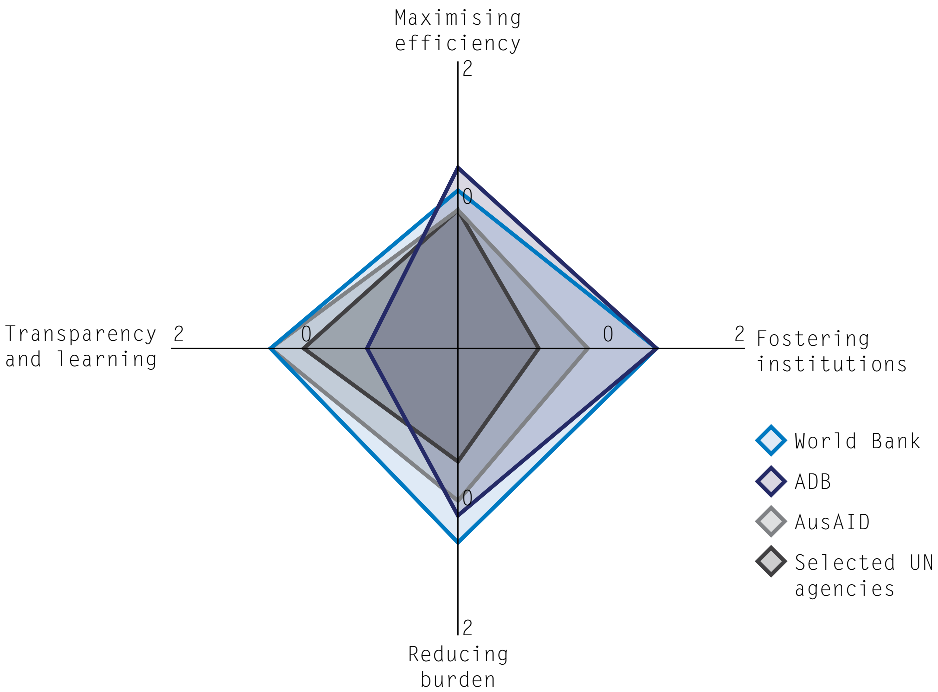
70. Morris, M., "Tripling Australia's IDA contribution? Quick decision required", Development Policy Blog, 27 October 2010, http://devpolicy.org/tripling-australias-ida-contribution-quick-decision-required/

2.2.4

EFFECTIVENESS AND RESULTS

Within aid officialdom there is a widespread view that the banks are effective and efficient deliverers of aid, especially when compared to the UN agencies. The *Quality of Official Development Assistance Report* produced by the Centre for Global Development rates the World Bank highly on its fourfold measure: efficiency; fostering institutions; reducing donor burden; and transparency and learning. In Figure 15 (drawn from Quality of Official Development Assistance Report data) comparing the World Bank, ADB, AusAID and selected UN agencies, the World Bank is represented as the best performer in three of the four quality measures, and the most well-rounded performer over all areas. The ADB rates favourably in three of the four areas (it rates the highest for efficiency), while AusAID rates poorly in two of the four measures and the UN agencies rate poorly in three of the four measures. It should be noted that all of the quality measures used in this report effectively measure bureaucratic systems within aid institutions; they do not provide any insight (other than inferred) about the *actual effect* of aid.[71]

● Figure 15: Aid effectiveness as measured by the Quality of Official Development Assistance Report



Source: Quality of Official Development Assistance.[72]

The adoption of results measurements systems by both the World Bank and ADB over the last decade has also increased the confidence and satisfaction of donors with their "return for money", with donors able to cite impressive sets of numbers such as those provided by the World Bank's "results at a glance" for 2000–2010:

- 3 million primary teachers
- 310 million children immunised
- 1.5 million water connections
- 120,000 loans to small enterprises
- 118,000 km of roads
- 33 million malaria nets[73]

71. *Quality of Official Development Assistance (QuODA)*,Centre for Global Development, www.cgdev.org/section/topics/aid_effectiveness/quoda. This website allows interactive use of the QuODA data to compare sets of donors.

72. This chart was produced using the interactive data on the QuODA website.

73. www.worldbank.org/ida/results-at-a-glance.html

These figures were cited directly in the Independent Review to demonstrate the case that core funding to the World Bank represents an effective use of aid (a similar set of "results" were also cited for the ADB). The review noted that "Australia contributes about two per cent of donor funding to IDA and can claim credit for this share of these impressive results."[74]

2.2.5
SCALE AND INFLUENCE

One of the most commonly cited reasons for supporting the banks is their scale and influence. The dominant line of thinking in the development world views scale as central to effectiveness: put simply, the greater the scale, the more effective the aid. This is because greater scales of work can give broader geographic and sectoral coverage, and are assumed to work in a more coordinated manner. A report commissioned by the UK Department for International Development (DFID) into multilateral resource allocation recommends that "if two multilateral organisations do equally well when viewed through (the assessment criteria), more resources should go to the one with the greater scale".[75]

Likewise, the level of "influence" and role within the international aid architecture are both considered factors that should positively correlate to the level of support for an institution. In particular, the capacity of an institution to engage in "policy dialogue" with recipient countries, especially politically difficult countries, is valued by donors.[76]

2.2.6
MORE AID TO AFRICA AND LOW INCOME COUNTRIES

Another commonly cited reason for supporting the World Bank is that it provides a higher proportion of its aid to Africa (approximately 50%) and low income countries generally, than donors such as Australia (the ADB's allocation to low income countries is comparable to Australia's). By this reasoning (reflected in the Independent Review), directing a greater share of aid to the World Bank (and potentially the African Development Bank) will ensure that a greater share gets to countries that need it, without "fragmenting" the aid program.[77] However, this also holds for the UN agencies, as they too deliver a higher proportion of assistance to low income countries than most bilateral agencies (including Australia).[78]

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74. *Independent Review*, p.192.

75. Faint, T. and Johnson, D. 2010, *Multilateral Resource Allocation: best practice approaches*, Overseas Development Institute Project Briefing, No.51, November, p.3.

76. ibid.

77. *Independent Review*, p.185.

78. Quality of Official Development Assistance (QuODA), Centre for Global Development, www.cgdev.org/section/topics/aid_effectiveness/quoda.

2.3

WHAT THE CRITICS SAY

Following is an overview of some of the most widespread concerns about the operations of the banks.

2.3.1

ECONOMIC PHILOSOPHY

The most consistent criticism of the banks, particularly the World Bank, relates to the underpinning economic philosophy that guides all of the programs and projects and informs the knowledge that they produces. Critics have argued that the strength of commitment to neoliberal economics, or the "Washington Consensus", within the banks has led to a flawed analysis of poverty and its causes, and this in turn repeatedly leads to the development of assistance programs that do not meet the needs of poor people, and which have, in many cases, actually worsened the conditions of poverty.[79]

Some of the commonly cited effects of the World Bank's economic policy (much of which applies also to the ADB) are:

1. Aggressive tariff reduction has impeded the development of domestic industry and agriculture in poor countries, and benefited those in wealthier countries.[80]
2. Privatisation of services has failed to deliver services to poor people or has increased the cost burden on them.[81]
3. Agricultural policy has led to increasing land concentration, and thus increases in landless poor people in poor countries.[82]
4. Agricultural policy has prioritised export commodity crops to the detriment of local food crops, increasing vulnerability to volatility in the international market, as with the global food crisis in 2008. Withdrawal of state intervention in agriculture has further increased the vulnerability of poor countries to international food prices.
5. Prioritisation of large-scale infrastructure projects in transport and energy has disproportionately benefited large (often foreign) commercial operations in poor countries, and has come at a high cost to the environment and affected communities. Such projects have often facilitated unsustainable resource extraction, leading to "resource curse" economies.[83]

2.3.2

CONDITIONALITY AND PRIVATISATION OF BASIC SERVICES

The notorious economic conditionality to the World Bank's structural adjustment programs in the 1980s is widely credited with contributing to the severe deterioration of African development through the 1990s and into this decade. The World Bank and its proponents now claim that this conditionality has largely been eliminated, or diluted, in World Bank lending.

Others claim that economic conditionality, although changed in form and mechanism, is still a part of World Bank lending. Research by the European Network on Debt and Development in 2007 found that more than two

79. The classic statement of this case was in Kevin Danaher (ed.) 1994, *50 years is enough: the case against the World Bank and the International Monetary Fund*, South End Press. A more recent and more scholarly example of this analysis is Stein, Howard 2008, *Beyond the World Bank agenda: an institutional approach to development*, University of Chicago Press.

80. See Thirlwall, A. P. and Pacheco-López, P. 2008, *Trade liberalisation and the poverty of nations*, Edward Elgar Publishing, for a full discussion of the impact of trade liberalisation and the role of the World Bank.

81. See Section 2.3.2.

82. For literature on points 3 and 4, see, for example, Chang, Ha-Joon 2009, "Rethinking public policy in agriculture: lessons from history, distant and recent", *Journal of Peasant Studies*, Vol.36, No.3, July; Fortin, E. 2005 "Reforming Land Rights: The World Bank and the Globalization of Agriculture", *Social & Legal Studies*, Vol.14, No.2, pp.147-164; Havnevik, K. (et.al) 2007, *African Agriculture and the World Bank: Development or Impoverishment*, Nordic Africa Institute.

83. See, for example, Cornford, J. 2007, *Hidden Costs: the underside of economic transformation in the Greater Mekong Subregion*, Oxfam Australia.

thirds of loans and grants from the bank's International Development Association (IDA) still had "sensitive" policy reforms attached. Most of these were privatisation-related conditions.[84]

Moreover, some consider that the inclusion of economic policy reform criteria in the World Bank's Country Policy and Institutional Assessment (CPIA) score means that World Bank lending is now based on a form of "conditionality with no consultation". Countries assessed as "better performing" under the CPIA — that is, countries aligning themselves to World Bank policy prescriptions — receive on average five times as much as "poor performers".[85]

The forms of economic conditionality that have groups in the South most worried are those which require privatisation of basic services, particularly water utilities, health services and education.

The primary mechanism for this form of conditionality has been the Poverty Reduction Strategy Paper (PRSP) jointly required by the World Bank and International Monetary Fund (IMF) for credit eligibility. Goldman states that through this process, "These days, a 'highly-indebted poor country' cannot borrow capital from the World Bank or IMF without a domestic water privatisation policy as a precondition."[86]

There is now a wide experience of attempts to privatise water distribution in developing countries. Critics argue that the sum result has been the failure to deliver services to poor people, demonstrating that commercial and social service objectives cannot always be made compatible.[87]

Privatisation of health and education services has not been pursued as aggressively as in the water sector, however, there is widespread concern about World Bank rhetoric calling for increased private sector participation in these areas. Once again, the chief concern is that the provision of quality services to poor people will be the casualty in moves towards cost-recovery and commercialisation in the developing world.[88]

2.3.3
VOICE AND REPRESENTATION

A long-standing criticism of the World Bank and ADB is that their governance is dominated by the wealthy countries, and that this has inevitably made them the vehicles of wealthy government interests. With voting rights based on shareholdings, both the World Bank and ADB have been dominated by the United States, Japan and Europe. In IDA, 12countries control more than 50% of the vote, with the remainder held by 158 member countries, while in the ADB, seven countries control more than 50% of the vote, with the remainder held by 60 member countries.

In 2010, the World Bank redistributed some of its voting power, claiming that developing countries now held 47% of voting power in IDA and a majority of seats on the board. However, critics pointed out that these figures are dependent on counting nations such as the Republic of Korea, Saudi Arabia and Israel as "developing countries". In reality, high income countries still control 60% of the voting power and more than half of the seats on the board.[89]

84. EURODAD 2007 "Untying the knots: How the World Bank is failing to deliver real change on conditionality", EURODAD Report, November, p.3.

85. Bretton Woods Project submission on the DFID White Paper, 11 May 2009, www.brettonwoodsproject.org/art.shtml?x=564551#_ftnref1

86. Goldman, M. 2007, "How 'Water for All!' policy became hegemonic: The power of the World Bank and its transnational policy networks", *Geoforum* 38, p.790.

87. See ibid, and Molina, Nuria and Chowla, Peter 2008, "The World Bank and water privatisation: public money down the drain", Bretton Woods Project Update 62, 26 September, www.brettonwoodsproject.org/art-562458

88. "World Bank health work flawed still pushing privatisation of services", Bretton Woods Project Update 66, 10 July 2009, www.brettonwoodsproject.org/art-564820

89. Horton, A. 2010, "Analysis of World Bank voting reforms: Governance remains illegitimate and outdated", *At Issue*, Bretton Woods Project, April, p.1.

2.3.4
KNOWLEDGE MONOPOLIES

Since 1996, the World Bank has positioned itself as "the knowledge Bank", that is the central global disseminator of knowledge about poverty, aid and development. It has been estimated that the annual research expenditure of the World Bank is in the region of $225 million and engages more than 800 staff.[90] This intellectual leadership places the bank at the "throbbing heart of development cooperation".[91] Although not in the league of the World Bank, the ADB is also a prolific producer and sponsor of development research.

Critics contend that much of the knowledge produced by the banks is heavily skewed by endemic ideological biases. Girvan states that "there is considerable evidence that the [World] Bank's knowledge output is slanted to provide justification for policies that serve the interests of its Northern sponsors" and that this bias is "systemically related to the need to please the Bank's principal governance and funding constituencies".[92] The most forceful evidence for this comes from an independent evaluation commissioned by the World Bank itself in 2006. Discussing the bank's research on globalisation, growth aid and poverty, the report stated that "this research was used to proselytize on behalf of Bank policy, often without taking a balanced view of the evidence, and without expressing appropriate skepticism. Internal research that was favorable to Bank positions was given great prominence, and unfavorable research ignored".[93] The report goes on to state that

> much of this line of research appears to have such deep flaws that, at present, the results cannot be regarded as remotely reliable, much as one might want to believe the results. There is a deeper problem here than simply a wrong assessment of provocative new research results. The problem is that in major bank policy speeches and publications, it proselytized the new work without appropriate caveats on its reliability. Unfortunately, as one reads the research more carefully, and as new results come in, it is becoming clear that the bank seriously over-reached in prematurely putting its globalization, aid and poverty publications on a pedestal. Nor has it corrected itself to this day.[94]

Robert Hunter Wade describes the World Bank as the "near-monopoly provider of key development statistics" such as measures of global poverty and inequality. Such core data provided by the World Bank is cited endlessly in the development world and is the basis for much analysis and theory about the role of aid (much of it also being generated by the World Bank), including Australia's 2006 White Paper. However, Wade contends that much of this data — for example, basic statements about the number of poor people in the world, and whether this is increasing or decreasing — is essentially flawed and cannot actually tell us anything reliable about the global incidence or trend of poverty. Examining bank claims early in the decade about the incidence of poverty, Wade concludes:

> My strong conclusion about the magnitude and trend in world poverty is that we must be agnostic, on the grounds that our current statistics are too deficient to yield a confident answer … My weaker conclusion is that the numbers are probably higher than the Bank says – though whether rising or falling over time we cannot say with confidence.[95]

Moreover, Wade considers that the World Bank's statistical analysis may be influenced by its broader political interests.[96] He concludes:

> The Bank is too committed to an "official view" of how countries should seek development, too exposed to arm-twisting by its leading member states, too compelled to defend itself against criticism. It faces constant pressures from within and without for its statistics and its research to be made 'endogenous' to the debate.[97]

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90. Girvan, N. 2007, *Power Imbalances and Development Knowledge*, The North-South Institute, September, p.19.

91. Ritzen, Josef, 2005 *A Chance for the World Bank*, p.5.

92. Girvan, op cit., p. 21.

93. Banerjee, A. (et.al.) 2006, *An Evaluation of World Bank Research, 1998-2005*, World Bank, p.6.

94. ibid, p.53.

95. Hunter Wade, Robert (no date), "Globalisation, Poverty and Income Distribution: Does the Liberal Argument Hold?", London School of Economics, p.59.

96. For example, in 2002, World Bank reports claimed that the number of people living in extreme poverty had *decreased* between 1980 and 1998. This contradicted claims in the *World Development Report* published by the World Bank the previous year, which said that extreme poverty had *increased* in this timeframe. Since the publication of the earlier report, the bank had come under attack from the US Congress and the Meltzer Commission, and was also launching its *Globalization, Growth and Poverty* studies, linking liberalising economies with poverty reduction.

97. Hunter Wade, Robert, op. cit., p.61.

At the country level, critics argue that the "knowledge machine" of the banks often serves to marginalise local knowledge and voices. Examining the World Bank's operations in India, Dharmadhikary concludes:

> The Bank's knowledge is frequently created by highly paid, often international, consultants, who have little knowledge of local conditions. The knowledge creation is mostly directed towards arriving at a pre-determined set of policies … This knowledge creation is often selective, in that information, evidence or experiences that do not support these pre-determined outcomes are ignored.[98]

Critics claim that the exclusivity of the banks' knowledge machines results in policies, programs and projects that adversely affect poor people.

2.3.5
CLIMATE CHANGE AND ENERGY

The World Bank is increasingly seeking to position itself as the main institution to manage global climate finance. Many civil society groups campaigning on climate change are deeply worried by this.[99]

Historically the World Bank has made investments in carbon-intensive projects. The bank claims that it has started making substantial investments in energy efficiency and renewable energy (US $3.3 billion or 40% of total energy sector commitments in the 2009 financial year). However, on average, World Bank lending for fossil fuels is still five times higher than that for renewables. Furthermore, much of the renewables investment is in controversial large-scale hydropower, which has many negative socio-economic and environmental impacts. The World Bank is currently undertaking an energy sector strategy review (due in July 2011 but not yet released at the time of writing). There are indications that the bank will move to restrict financing of new coal power development in low and middle income countries, but that this will come at the cost of promoting large-scale hydropower development.[100]

At the same time, the World Bank has become central to the "reducing greenhouse gas emissions from deforestation and forest degradation" (REDD) mechanism launched in Bali, 2007, through its management of the Forest Carbon Partnership Facility and the Forest Investment Program. The purpose of these funds is to pilot performance-based incentive payments for forest conservation in developing countries. Many environment groups, NGOs and indigenous peoples' organisations are highly critical of the idea of including forests in international carbon trading schemes. There is concern that REDD will result in schemes that lack transparency, create perverse incentives, and cause the loss of livelihoods for subsistence agriculturalists and displacement of forest-dwelling indigenous peoples. The ultimate fear is that the REDD scheme will be not be effective at reducing overall emissions, but will rather become a means for Western countries and corporations to avoid substantial emissions reduction.[101]

2.3.6
PROJECT IMPACTS AND ACCOUNTABILITY

Compared to most donors and financiers, the banks have a strong set of policies that are intended to safeguard indigenous peoples and minority groups, relocated peoples, and the environment, during the course of bank-financed projects. Nevertheless, the existence of strong safeguards policies has seemingly failed to prevent a high incidence of unintended negative impacts from bank-funded projects, particularly in the case of

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98. Dharmadhikary, Shripad 2008, *The World Bank as a Knowledge Producer: How the Bank uses Flawed Processes to Generate Unsound Knowledge for Promoting Disastrous Policies*, Manthan Adhyayan Kendra, Delhi, p.xv.

99. See, for example, NGO Statement on the World Bank's Proposed Forest Carbon Partnership Facility (FCPF), 30 November 2007, signed by more than 90 NGOs, www.bicusa.org/en/Article.3593.aspx

100. Girzon, Paulina 2011, "Where is the World Bank's energy sector strategy headed?", Bank Information Center Update, 3 May, www.bicusa.org/en/Article.12431.aspx

101. For overall concerns about the World Bank's role in REDD see, for example, Bretton Woods Project, *The Role of the World Bank in Carbon Finance*, January 2011; Lang, C. (no date), "REDD: An Introduction", Red-monitor.org, www.redd-monitor.org/redd-an-introduction/; Bank Information Center (no date), "Forest Carbon Partnership Facility", www.bicusa.org/en/Issue.54.aspx. For specific concerns about threats to poor and indigenous communities see Dooley, K., Griffiths, T., Martone F., and Ozinga, S. 2011, *Smoke and Mirrors: A Critical Assessment of the Forest Carbon Partnership Facility*, FERN and the Forest Peoples Programme, February; ACFID 2010, *Can Money Grow on Trees? Reducing emissions from deforestation and degradation (REDD) in developing countries*, ACFID Research Paper, October.

infrastructure projects. Negative project impacts are often a result of poor consultation and participation of local people in project design, and poor monitoring.[102]

Internal bank processes for identifying, acknowledging and rectifying unintended negative impacts are weak. Likewise, the culture of both banks is resistant to acknowledging negative impacts when these are pointed out by outsiders, including (especially, perhaps) those directly affected.

Both banks have semi-independent accountability mechanisms that theoretically provide a channel of redress for affected peoples. However, the technical and bureaucratic structure of these mechanisms makes them highly inaccessible to most project-affected peoples. The few who have sought redress through bank accountability mechanisms have received little in the way of satisfactory outcomes.

102. See for example the Bank Information Center's web database of problem World Bank projects (www.bicusa.org/en/Institution.Projects.5.aspx) and problem ADB projects (www.bicusa.org/en/Institution.Projects.2.aspx). See also Kent, L., and Simon, M. 2007, *Safeguarding or disregarding? Community experiences with the Asian Development Bank's Safeguard Policies*, Oxfam Australia; Withanage H. (et.al) 2006, *Development Debacles*, NGO Forum on ADB, April; Oxfam Australia 2008, *A Citizens Guide to the Greater Mekong Subregion: Understanding the GMS Program and the role of the Asian Development Bank*, November.

SECTION 3

DISCUSSION

There are two things that this paper makes abundantly clear. Firstly, the World Bank and ADB occupy a critical role in the Australian aid program. Next to AusAID itself, the World Bank is the single largest deliverer of Australian aid and its intellectual influence is found at the heart of Australian aid policy. Secondly, the grounds for evaluating the merits of this privileged role occupied by banks are extremely contested. Nevertheless, the "official view", well represented in the Independent Review of Aid Effectiveness, has effectively shut its ears to this controversy. The recommendations of the Independent Review have uncritically affirmed the pre-eminent role of the banks in Australia's program, and potentially strengthened this role.

How do we determine the role that the banks *should* play in delivering Australian aid? As the previous section indicates, there is good reason to be concerned about some of the impacts Australian aid may be having when delivered through the banks. However, the evidence presented here is far too superficial to be drawn into any convincing conclusions. Moreover, this paper has not examined other modalities for delivering aid in a way that allows us to yet draw any conclusions that, for example, it would be better to make greater use of UN agencies, or more bilateral aid, or greater levels of NGO aid delivery. This is work that needs to be done.

Nevertheless, we can be clearer about some of the questions we should be asking about the banks' role in the aid program. We should begin by agreeing that it is probably unprofitable to be asking whether or not we should be giving any aid to the banks. It is certain that the Australian Government is not going to make any drastic changes to the current order of things any time soon, and there are too many reasons why the government has partnered with the banks, beyond an interest in good aid.

A more profitable line of inquiry would be to begin by asking critically what the banks are good for, and what they are not good for. For example, a case could be made that the banks are at their best in their traditional area of funding economic infrastructure but they are ill placed to facilitate water reform or agricultural reform in ways that most advantage poor people.[103]

With the basis of a more critical perspective of the banks we could more profitably ask what is the best way to direct aid through them. Such a process might not necessarily lead to the standard assumption that a greater portion of core, rather than earmarked, funding is better. If, as some argue, there is too much in the banks' core *modus operandi* to be concerned about, then a higher proportion of earmarked funding would allow more direct oversight and monitoring of the impact of money directed through the banks.

Finally, we come to the question of how much should be given to the banks; in particular, what proportion of the aid budget should be set aside. This is the big question of comparative value: how do we rate the banks against other potential channels and modalities for delivering aid? This is obviously a question that requires critical evaluation of far more than just the banks.

In the meantime, short-term improvements to the current system might be made in a number of areas, such as the monitoring and evaluation of multilateral aid, the improvement of data collection and presentation, or changing the overall mix of the multilateral portfolio. Where there is clarity about potential improvements, these should be pursued. A cautionary approach would suggest resisting any further increases to the proportion of the aid budget directed towards the banks, especially while their role remains largely undebated.

103. This case is not being made here, but it is an example of a hypothesis worthy of examination.

A word of caution: if such a debate does ensue, much of it will inevitably be framed in the language of "aid effectiveness". One of the major shortcomings of the aid effectiveness agenda — as captured by the Paris Declaration, the Accra Agenda or the Quality of ODA report — is that it too often assumes that aid is a *primarily technical* process. Most of the literature on aid effectiveness is heavily (or entirely) focused on reforming the administrative processes of aid — it is essentially a technocratic agenda. While this is warranted and necessary, it has not done enough to direct attention to the *actual content of aid*. What are the changes that a particular form or agent of aid are seeking to bring about, and what is the *actual effect* of those changes on poor people?

Perhaps the greatest need is to re-open a debate on how aid is best delivered, and in what ways aid can, and cannot, make positive contributions to the lives of poor people. In particular, we need to re-open the debate about the underpinning economic philosophy that has held sway for so long. This goes well beyond the role and influence of the banks, to the core beliefs of our own government, and within the Australian aid sector more generally, about poverty and wellbeing. These debates have been abandoned in the past because they do not yield short-term fruit. However, as the global tide of need continues to rise, we can no longer neglect such important work.

QUESTIONS FOR CONSIDERATION

a. With rising aid volumes and the challenges that this brings for aid delivery, how do we weigh up, compare and find a balance between various aid modalities?
b. Within the mix of aid modalities and partners, what is the best role for the World Bank and ADB in Australian aid delivery?
c. Would it be better to make greater use of the UN system? Which UN agencies are the most effective? What about other aid modalities?
d. What forms of aid are the banks best equipped to deliver?
e. What reforms/improvements do the banks have to undertake to prevent harmful impacts of aid?
f. What forms of aid should the banks stay away from?
g. What should be the balance between core funding and earmarked contributions?
h. What is the appropriate level of AusAID monitoring, evaluation and accountability, for contributions to and through the banks?
i. Should the underpinning economic framework of Australian aid (and how this influences the selection of partners) be the subject of more public debate?

SUMMARY OF IMPLICATIONS FOR AUSTRALIA'S AID PROGRAM

1. The role of the banks in Australian aid has generally been poorly understood and the inadequacy of data has contributed to misunderstandings. AusAID could improve the publication and presentation of data that can help it and the public to more easily and fully understand the role of the banks within Australia's aid program. This could include disaggregation of core and non-core payments (ideally with disaggregation for trust funds and project co-financing) within the AusAID annual report, and reporting on parallel financing activities.
2. The scale, complexity and high level of critique of the banks makes them particularly challenging to monitor and evaluate. AusAID could strengthen its capacity to monitor and critically evaluate the effect of bank programs in developing countries. This could include:
    a. finalising and releasing the Multilateral Engagement Strategy and developing a monitoring and evaluation framework for multilateral aid;
    b. engaging with third party, civil society input, especially from project-affected peoples, as part of the formal process for monitoring and evaluating the work of the banks; and
    c. increasing staff resources monitoring the banks.

3. Aid debate in Australia has tended to focus on volumes, sectors and technocratic processes. There needs to be a more serious discussion on *aid modalities* within the Australian development community. While there may be reason to challenge the pre-eminence of the role of the banks in Australian aid, it is not possible to critically assess them against other modalities of aid (UN agencies, NGOs, AusAID-managed private contractors, other government departments) without similar critical discussions of those modalities.

4. It is clear that the banks will continue to play a significant role in Australia's aid program for some time. However, the graveness, breadth and longevity of critique of the banks warrants that these critiques be addressed more seriously by AusAID and the government. In particular, the growing recognition (even within the World Bank) of the ideological tunnel vision of the banks, and the ways in which this has determined bank programs and sidelined alternate possibilities, should provoke a critical re-assessment of the appropriateness of some of the banks' policies and programs. In this context, maintaining a higher ratio of earmarked to core funding should not be ruled out as an appropriate way of more selectively engaging with the banks.

APPENDIX

COMING TO GRIPS WITH THE DATA

The research for this paper was initially conceived due to an absence of adequate data concerning the role of the banks in Australia's aid program. In 2008, when I first began asking, AusAID did not know how much money was going to the banks, and it was not until questions were asked in the Senate Estimates Committee for Foreign Affairs, Defence and Trade in 2009 that some data was furnished. Since then, two new editions of the *Statistical Summary of Australia's International Aid Program* have been published, supplying a range of data on the aid program for the years 2006 to 2009.

The inadequacy, lack of clarity, and inconsistency of data concerning the banks has inevitably hampered clear analysis of the role of the banks in Australia's aid program. The discussion below seeks to address some areas where there has been confusion, highlight areas where there are still inadequacies in the data, and clarify how data has been used in this paper.

A.1

HOW MUCH MONEY DO WE GIVE THE BANKS?

There is not much literature on the role of the banks, or multilateral institutions generally, in the Australian aid program. However, a perusal of what there has been over the last few years would leave the reader with two impressions: (i) that Australia's contributions to the banks are negligible compared with other nations; and (ii) that contributions to multilateral organisations generally (including the banks) have been declining over the last decade. Neither of these is true, so how has such a view developed?

In 2008, AusAID's *Annual program performance report for the multilateral programs* noted that there had been a "decline in multilateral funding as a share of total official development assistance over the past decade".[104] Taken at face value, this statement, based on AusAID's own data, is incorrect. Figure 7 shows that multilateral payments overall have been steadily increasing over the decade. However, the 2008 *Annual program performance report for the multilateral programs* was prepared in the absence of any *Statistical Summary* data for years after 2005, and therefore chose to limit its analysis to *core payments* made to multilaterals. The quote above would have been correct if it had been made with reference only to core contributions. However, given that more than 60% of Australian multilateral contributions are earmarked (non-core) (see Section 1.3.1), the *Program Performance Report*'s analysis became seriously misleading (not to mention of questionable value given it was based on less than 40% of the multilateral portfolio).

Similarly, the DAC Peer Review of Australia's aid program, published in 2009, reported that "the share of ODA channelled through multilateral organisations is relatively low, decreasing from 18% in 2004 to 14% in 2007."[105] Multilateral funding figures from the *Statistical Summary* for these two years are 31% and 26% respectively. This large discrepancy must be assumed to be a product of the OECD only reporting on core

104. AusAID 2008, *Annual program performance report for the multilateral programs 2007-08*, November, p.9.

105. DAC 2009, *Australia: Development Assistance Committee (DAC) Peer Review*, p.44.

contributions to multilaterals, however, the failure to identify this gives a misleading picture. Moreover, while there is a drop when multilateral contributions for 2004 are compared with 2007, contributions in 2005 and 2008 were both higher than in 2004. As shown in Figure 7, the *overall trend* for contributions to multilaterals was one of a *steady increase* over the years 2000 to 2009.

Interestingly, a 2010 contribution to the Development Policy Blog cited the DAC Peer Review, claiming that the share of Australian aid channelled through multilaterals was only 7% in 2007.[106] This "relatively low" figure was used as the basis for an argument to increase the share of funding going to multilaterals:

> One option that is available is to spend more money through multilateral agencies, such as the UN, the World Bank and Regional Development Banks. […] By increasing this share, Australia can potentially harness the capacity of these organisations to manage Australian aid funds. […] Funds can be channelled through global programs (such as the IDA 16 replenishment or the Education for All initiative) or through trust-funded programs at the country level (such as the Afghanistan Reconstruction Trust Fund).[107]

In another contribution to the Development Policy Blog in 2010, Matthew Morris argues for a tripling of Australia's contribution to IDA. Once again, this argument is based on the perception that Australian contributions to IDA are low:

> Australia was the twelfth largest donor in the last replenishment, contributing A$583 million over three years or about 5 percent of total Australian aid. The most generous countries contribute about 10 percent of their aid budgets to IDA, but Australia's contribution is about the average.[108]

Once again, the use of core contributions to represent how much aid is channelled through the World Bank is highly misleading. In 2009, core contributions made up only 17% of Australia's "total use" of the World Bank. In that year the share of ODA channelled through the World Bank was well over 13% of the aid program and greater than Australia's contribution to Indonesia.

Likewise, comparing Australia's "average" IDA core contributions to "the most generous" countries is similarly misleading when Australia's level of non-core contributions was the second highest in the OECD. The DAC does not provide data that shows whether Australia's total use of the World Bank, as a proportion of ODA, is either average or generous; however, Australian contributions to the World Bank as a proportion of the multilateral portfolio is certainly well above average: World Bank contributions made up 42% of Australia's multilateral portfolio between 2004–2008, whereas the OECD average was 33%.[109]

A.2
DATA SOURCES

The *Statistical Summary* is the fullest and most reliable source of data on the aid program. Other data can be gleaned from budget statements and AusAID annual reports, and some data on contributions to the banks also appears in Treasury's *Annual Report to Parliament on the International Financial Institutions.* However, the data that appears in these publications is highly selective and does not appear in a consistent form over time. Moreover, the data in these various publications is often not readily comparable. For example, data from the *Statistical Summary* lists contributions to the ADB in 2003 as $11 million; Treasury data for the same year puts it at $96 million. For some reason, the Treasury *Annual Report on the IFIs* stopped reporting on the ADB from 2008.

The bulk of the data collection and analysis in this paper was done prior to the commissioning of the Independent Review and the subsequent government response, *An Effective Aid Program*. Both of these documents have

106. "Some thoughts on Australian aid", Development Policy Blog, 4 December 2010, http://devpolicy.org/some-thoughts-on-australian-aid/. It is unclear how the author arrived at a figure of 7%.

107. ibid.

108. "Tripling Australia's IDA contribution? Quick decision required" Development Policy Blog, 27 October 2010, http://devpolicy.org/tripling-australias-ida-contribution-quick-decision-required/

109. DAC, *2010 DAC Report on Multilateral Aid*, p.28.

furnished some newly illuminating data, which is useful for the purposes of this paper, however, without enough consistency to fill out the picture of multilateral funding since 2009, the most recent year covered in the *Statistical Summaries*.

Although the *Statistical Summary* is the best source of data there are a number of pitfalls to beware of, especially with data regarding the banks. For the years 2000 to 2004, the data for the banks is a mess. The figure for contributions to the World Bank in 2001 is variously listed as $119 million, $28 million and $30 million, depending on which edition of *Statistical Summary* you consult. In the 2006 edition of the *Statistical Summary*, Table 1 lists overall multilateral contributions (that is, including the banks, UN etc) in 2004 as $97 million, while Table 18 lists contributions to the banks alone in that year as $296 million. There are many more such anomalies.

The consistency of the *Statistical Summaries* has improved since then, however, the complexity of data for the banks still poses some traps. For example, in the "Key Statistics" at the front of the 2010 edition, contributions to the World Bank in 2008 are listed as $449 million, where the figure given in this paper is $389 million. However, Table 17 reveals that the *Statistical Summary* figure includes contributions to the Global Environment Fund (GEF) and The Global Fund to Fight AIDS, Tuberculosis and Malaria (GFATM) as funds administered under "the World Bank System". These two funds are what are technically known as Financial Intermediary Funds, for which the bank provides specific administrative or financial services with a limited fiduciary or operational role; they are nowhere else considered by AusAID to be part of the bank as they function as independent institutions with their own governance and policy arrangements. To further confuse matters, the 2011 edition of the *Statistical Summary* includes the Global Fund (GFATM) in its figures for "the World Bank System", but not the GEF (there is no explanation as to why the GEF is suddenly treated differently to GFATM), providing an overall figure for 2008 contributions to the World Bank at $434 million.

In this paper, figures that are given for the World Bank and ADB refer only to contributions to those bodies and funds that are ordinarily considered to be part of the World Bank and ADB (including IDA, IFC, HIPC and MDRI for the World Bank), but not the Financial Intermediary Funds (GEF and GFATM). Nevertheless, a matter which has not been explored here and worthy of examination is the extent to which the World Bank may influence the operation of these funds.

A.3

CORE VERSUS NON-CORE PAYMENTS

A major gap in the data on contributions to the banks is the inadequacy of data on core versus non-core payments. As shown previously, the absence or opaqueness of this data has led to misleading analyses of the role of the banks in Australia's aid program.

Disaggregated data for core and non-core contributions did actually appear in the *Statistical Summary* for the years 2003–2004 and 2005–2006, but this has not been continued in the most recent editions. AusAID annual reports (Section 2) supplied data on core contributions (but not non-core) for a number of years (2006, 2007, 2008) but then in 2009 supplied some (not full) information on non-core payments, but not core payments. The most consistent set of numbers outlining core payments to the banks is in the Budget Statements, and these figures have been used as the basis of the data presented in this paper. Non-core payments were estimated by simply subtracting the core payment figure from the Budget Statement from the aggregated figure (core plus non-core) from the *Statistical Summary*. Cross-referencing the figures from the Budget Statements with the annual reports has confirmed a strong agreement (if not to the dollar) in the data.

The Multilateral Study commissioned by the Independent Review provides data for core and non-core payments to select multilateral agencies (including the banks) for the years 2006–07 and 2009–10 in Appendix. Data for ADB in 2007 agrees closely with the data used in this paper, however, data for the World Bank is wildly at odds with data in this paper — without any detail on exactly what these figures represent and how they were compiled, it is impossible to account for the discrepancies.

AusAID does not publicly provide consistent or full data on contributions to multi-donor trust funds or project co-financing arrangements. Data used in this paper for contributions to multi-donor trust funds came from requests made through the Senate Estimates Committee. Data for project co-financing came from the banks themselves, which requires translation into Australian dollars, and which in the case of the World Bank is incomplete. There is no data on parallel financing arrangements.

In its response to the Independent Review, the government made a commitment "to increasing the amount of information available on the aid program in a timely and user-friendly form for the Australian public".[110] The transparency of data concerning the banks would be greatly improved if the AusAID annual report simply presented figures for both core and non-core payments. Ideally, non-core payments would be further disaggregated into payments to trust funds, project co-financing and other arrangements. Likewise, there is no reason why the annual report, which is in a narrative form, could not also supply information on parallel financing arrangements with the banks.

A.4

WHO DELIVERS AUSTRALIAN AID?

Another glaring inadequacy in the presentation of Australian aid data is the lack of a single clear presentation of aid delivery by *modality*. The question of "Who delivers Australian aid" seems a simple question, however, until recently, neither the *Statistical Summary* nor any other document that I have found, has furnished enough data to provide an adequate answer.

Figure 2 in this paper provides a representation of the modality of Australian aid for 2008, which has been compiled from a number of sources: the *Statistical Summary* for data on the banks, UN agencies and other international organisations, NGOs and volunteers, and other government departments; the Education Annual Thematic Performance Report 2007–08 for scholarships; and the 2008 DAC Peer Review of the Australian aid program for private contractors. The figure for "Others" is simply what is left once all of these are subtracted from the total ODA for 2008. Using multiple data sets in this way is far from desirable and not exact — for example, the figure from the DAC Peer Review for private contractors covers the calendar year for 2007, thus only six months of the financial year 2007–08. However, in the absence of any clear and simple data published by the government, this is the best approximation that can be made to gain some insight into what is an essential question for those interested in aid quality: who is delivering aid? The key concern here is to shed some light on an otherwise opaque issue, and not absolute accuracy.

The Independent Review and the government's response have both since presented graphic representations of aid modality which shed significant light on changing trends in how aid is delivered (see particularly Graph 10, p.53 of *An Effective Aid Program*). Unfortunately, these graphs show the various modalities as a percentage of *AusAID expenditure*, not *overall ODA*, so not giving the complete picture, and the most useful of these graphs (in the government's response) is not accompanied by the underlying data. It remains to be seen if this sort of representation of critical aid data will be continued in future *Statistical Summaries* or AusAID annual reports. As mentioned above, the government's commitment to enhance the transparency of the aid program would be greatly assisted by the publication of such basic data.

110. *An Effective Aid Program*, p.24.

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Manna Gum
Manna Gum is an independent Christian not-for-profit organisation which is motivated by a vision of a world in which there is enough for all.
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