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# The World Bank and the Poor

Aart van de Laar

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*For Hanneke, Marjolijn  
and Katinka*

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## FOREWORD

The authors of a recent textbook on the *Economics of Development* (P.A. Yotopoulos and J.B. Nugent, 1976) chose as the title of their first chapter 'The Record of Economic Development and Disillusionment with Development Economics'. It is striking that dissatisfaction with this young branch of the tree of economics has become so strong that a textbook treatment of the subject matter takes Disillusionment as its point of departure. True, the Disillusionment chapter is followed by many other chapters – there is, after all, something to be said on development economics that is worth saying – but the wording has changed, and frequently the focus as well, in comparison to the development economics of the 1950s and 'sixties.

Dissatisfaction and disillusionment may be interpreted optimistically as an inevitable stage in the coming-of-age process of development economics. Others may say that the search for a new paradigm is the core of the problem. At any rate, there is no room for complacency. It cannot be denied that at least part of the 'early' development theory came into being as a justification *ex post* of policy measures that, for a variety of reasons, were judged desirable or essential. And when it was found, in the course of time, that such policy measures had failed to produce 'true' development – in terms of the then current definition of the concept – theories or parts of theories were discredited and discarded. This process still continues, but slowly and gradually development theory is trying to reduce its subservience to development policy. This has created a relatively new situation for policy makers whose activities meet with more criticism than in the past – criticism coming this time not from the side of political opponents but from academic quarters.

Due to the present state of dissatisfaction within the discipline, development economists at universities cannot address policy makers with too loud a voice. Yet they should not refrain from speaking-up if they are convinced that there are good grounds for doing so. The present study by Dr van de Laar is a case in point. The World Bank is undoubtedly one of the leading policy makers in the development field, and its professed policy to reorient its activities in large measure towards the poor and the poorest in the developing world is an issue of major importance in designing an international development strategy for the years to come. But will the Bank be able to implement such a poor-

oriented policy successfully, or are there good reasons for serious doubt in this respect? That is the question to which Dr van de Laar addresses himself in the following pages.

A discussion of the appropriateness and adequacy of Bank policies has to cope with two problems — problems that are interrelated and which seem to have a common cause. The first, as Dr van de Laar points out in his introductory chapter, is that relatively little information about the Bank Group's internal functioning and decision-making processes is available in documents and reports that are accessible to the public. Attempts to evaluate the Bank's performance in identifying, formulating, modifying, approving and executing development projects are hampered all too often by lack of relevant information — as distinct from information on how the Bank would like to do it in principle.

The second problem is that the Bank — as any large bureaucracy — is inclined to react rather negatively to public criticism. It either ignores such criticism as much as possible, or starts to contradict it vehemently. This is regrettable, as then no discussion or dialogue is possible. The Bank should realize that as a development agency it is far too important to be left alone by those in the academic field who try to think critically but constructively about the development process. And why should constructive criticism always or nearly always be seen as a threat or a nuisance? Avoiding an open dialogue creates the impression of weakness rather than of strength.

The present study will hopefully provide a starting point for a discussion of the Bank Group's future role on the international development scene. This will be, in all probability, an important role — but let us try to be explicit about what the Bank can do and cannot do. This book is an attempt to achieve greater clarity on this point — and in spite of its limitations (see the first problem mentioned above), I think it is a very valuable attempt. I hope that people in Bank circles will read it with open minds. Not only in Bank circles, however, because the issue at stake is equally important to other members of the U.N. family and to the development profession at large.

In the first paragraph above I have referred to the dissatisfaction and disillusionment with development economics. In Dr van de Laar's analysis, dissatisfaction and disillusionment are also present. They may represent a good point of departure, however, from which to ask the proper questions and to deepen our understanding about what is and what is not possible. The author is to be credited for doing exactly this with regard to the World Bank as an agent to help the poor.

Hans Linnemann

*Free University of Amsterdam  
November 1979*

## CONTENTS

Acknowledgements	vii
Foreword	ix
I. Introduction	1
II. Growth and Evolution of the International Bank for Reconstruction and Development	11
Introduction	11
IBRD Membership	11
Growth of Lending Commitments	14
Distribution of Bank Lending by Country	16
Financing the Bank	18
Determinants of Bank Lending by Country	31
III. Growth and Evolution of the International Development Association	55
Historical Background	55
Growth of IDA Activities	59
Source of Funds: An Overview	61
Prospects for ODA and IDA Financing	68
Lending Policies: Distribution by Countries	79
Bank Group Lending Policy: Distribution by Sector	82
The Pre-Investment Function in the UN System	84
Conclusion	89
IV. Bank Staff	92
Introduction	92
Growth of Bank Staff	93
Representation	94
Senior Bank Staff	97
Factors in the Recruitment of Bank and UN Staff	99
The Young Professionals' Programme	101
The Future	103



V.	<b>Economic Growth and Poverty, and Prospects for a Reallocation of World Bank Group Resources</b>	109
	Introduction	109
	Post-War Economic Growth Records	110
	Prospects for Reallocation of Bank Group Resources Towards Poorer Countries	121
	Annex	151
VI.	<b>Issues in Small-Farmer Projects</b>	143
	Introduction	143
	The Technological Package and Agricultural Research	146
	Land Reform and Bank Policy	149
	Agricultural Credit and Bank Policy	160
	Integrated Rural Development Programmes	174
	Replicability, the Bureaucratic Bottleneck, and the Bank	195
	Lending for Rural Development: Early Experiences	202
	Conclusion	205
VII.	<b>The Organization of the World Bank</b>	209
	Introduction	209
	The Nature of the Task: the Structure of the Organization	210
	Evolution of the Bank's Organizational Structure	215
	Evolution of the Bank's Organizational Style	222
	Is Decentralization the Answer?	241
VIII.	<b>Conclusions</b>	249
	<b>Bibliography</b>	253

# I

## INTRODUCTION

The theory of, and the public policy recommendations for, international development efforts seem to have been in a state of confusion since the late 1960s. Although the developing countries have experienced growth rates of Gross National Product that were high by historical standards, there is evidence that that growth has been distributed rather unevenly between and within countries and among socio-economic groups. Growth seems to go hand in hand with growing unemployment, growing inequality and growing poverty.

At the theoretical level it seems useful to discuss two principal modes of viewing development. One may be termed the conventional, traditional, neo-classical approach; the other the political economy or radical approach. These two paradigms or world-views start from different value assumptions, have different operational criteria for defining the 'good society', and formulate strikingly different strategies for attacking the problem of economic development.

At the public policy level we find a flow of sometimes contradictory recommendations that seem to succeed each other at two-year intervals. Though the Pearson Committee (1969) was not unaware of the patterns of development that had emerged, its recommendations may be summarized briefly, but not perhaps unfairly, as 'doing more of the same'. The ILO sponsored Employment Mission to Kenya (1972) advocated a strategy of 'redistribution *from* growth'. Two years later the World Bank formulated elements of a strategy of 'Redistribution *with* Growth'. In 1976 the ILO formulated a 'basic needs strategy' (ILO 1976). In 1978 Adelman, among others, advocated a strategy of 'redistribution *before* growth'. Though the report of the Brandt Commission has not been published, some sceptics suggest that its recommendations may add up to 'no redistribution and no growth'. No-growth for ecological and environmental reasons, and no redistribution because the reality of world power relations does not permit it.

If, indeed, there is a growing body of evidence which indicates that the past pattern of economic growth has been accompanied by growing unemployment, more pronounced income inequality and continuation of mass poverty and disease, there is then a clear need for a different pattern of future growth and development which will alleviate social and human problems and improve the

living conditions of the lower income strata of the populations of developing countries, and theorists and policy makers should re-direct their efforts towards finding ways and means to achieve it.

This book deals with the response of the World Bank to the new challenge. It attempts to investigate what the Bank may be able to do and can achieve in redirecting its activities towards the poor.

Why focus on the response of the World Bank? The answer must be in part because Mr McNamara, its president, has been speaking out eloquently about the lot of the poor. His address to the Board of Governors on September 25, 1972, was specifically devoted to Social Equity and Economic Growth. It focused on the low-income strata – roughly the poorest 40% – of the total population in all developing countries who, despite their country's gross economic growth, remain entrapped in conditions of deprivation which fall below any rational definition of human decency. Subsequent speeches have reiterated and elaborated this theme. More relevant, however, is the fact that in 1973 Mr McNamara, to redress this imbalance in past patterns of growth, announced a plan of action which, at first sight, seems more focused than the exhortations of other United Nations' agencies. Most important, however, is the fact that the World Bank is the *only* UN agency which has substantial financial resources at its disposal with which it could back up any envisaged change to the scope and orientation of its activities. Most UN bodies have to confine themselves, willy-nilly or not, to providing technical assistance and to devising and presenting policies to forums which do not generally have the authority to enforce compliance even if concrete and specific proposals are adopted, which is rarely the case.

The World Bank Group of institutions: the International Bank for Reconstruction and Development (IBRD), the International Finance Corporation (IFC) and the International Development Association (IDA), has of late become the major actor in the context of international development cooperation. Yet the number of serious evaluative studies of the World Bank is very limited. In part this has to do with the nature of much of its activities. The major activity of the Bank Group consists in the (co-)financing of specific development projects. But such projects are prepared and negotiated with governments or agencies of member countries under conditions which often evoke an analogy with secret diplomacy in order to protect the interests of the immediate partners. A second range of World Bank activities is to advise governments on general and specific economic policies at macro and sectoral levels, and the same desire for semi-secrecy often applies. A third group of activities, and for some of the Bank's staff its sole activity, is to produce studies and reports which contribute to the international debate on development, be it in academic circles or in more public opinion-oriented periodicals or books. They are best evaluated in public debate. These contributions deal with issues of development in general, however, and many of them lack operational significance for the Bank's other activities.

Given this nature of the 'output' of the World Bank, major problems can be expected to arise in evaluation. Each Bank-financed project has its own history. It is shaped in interaction between Bank staff and various officials and agencies in a country, often with one or more consultants advising one or all partners. To disentangle the contributions of the various parties would be nearly impossible. Up to mid-1978, the Bank had been involved in some 1600 projects and IDA in some 950 projects. There must be a bunch of 'bad eggs' in so large a basket. Similarly, there will undoubtedly be some very successful projects. Bad or successful, but by what standards and criteria? Even assuming that it were possible to produce 2500 project histories, what could one possibly 'generalize', especially when it may be assumed that most of the projects approved since 1970, nearly 1600 of the total, are still 'ongoing', i.e. are not yet completed in terms of disbursement or of subsequent benefit? Questions to ask and to be answered would be: In what ways would projects have been shaped differently if other staff had been involved in their preparation and execution? In what ways have projects changed because of changing Bank policies and procedures over time? Project decisions are made in response to challenge and issues in the light of the perceptions of those responsible at the time when decisions had to be made. Can one avoid the dangers of 'hindsight' reasoning in an area where conventional wisdom changes frequently, often rapidly and sometimes drastically?

Albert Hirschman, in his *Development Project Observed* (1967), studied only 11 Bank-financed projects. This sample was selected on the basis of two criteria: as a group they had to be well diversified with respect to economic sector and geographical area, and each project had to have an extended history including, if possible, several years of operation. The latter condition, in particular, limited the sample in practice to projects to which the Bank had given support at an early stage of its own operations, i.e. mostly during the 1950s. Hirschman then used these projects to make a broader and often brilliant analysis of project behaviour. Such an analysis makes it difficult to assess the precise role of the Bank in each specific project, however, and it is not clear how general the lessons of the Hirschman analysis really are.

Two other volumes dealing with Bank-financed projects are by-products of the teaching activities of its Economic Development Institute. John King's: *Economic Development Projects and their Appraisal* (1967) deals with a number of projects (sometimes including more than one loan per project) in the fields of electric power (17), transport (9), and industry (4); and J. Price Gittinger's book: *Economic Analysis of Agricultural Projects* (1972) deals with projects in a more recently developed field of Bank endeavour. These volumes contain teaching materials and focus for the most part on technical problems in the appraisal of projects. So much for the readily available published studies.

During 1973-74 the Bank's Operations Evaluation Department made about 25 so-called Project Performance Audits (PPAs), reviewing all projects on

which disbursements were completed one year earlier. Typically, these reports review the process of project preparation up to the appraisal report as a basis for the lending decision. A realization versus appraisal report forecast was made, including an analysis of the causes of discrepancies between these two sets of figures. Where appropriate a new rate of return on the project was calculated.

This format is more helpful in an analysis of the role of the Bank than the studies mentioned earlier. Yet, allowing for regional and sectoral diversity, the sample was still very small. These recent studies, like nearly all Bank reports, were written under considerable time pressure, but were relatively unbiased despite their in-house publication status. Internal clearance procedures were minimized. The Operations Evaluation Department (OED), together with the Internal Auditing Department, were at that time placed under a Vice President who had no other operational responsibilities. Thus, some 'arm's length' assessment was possible.

These PPAs were made available to the Executive Directors on a confidential basis, limiting access to outsiders, but have now been discontinued as too costly. A Project Completion Report (PCR) is now produced as part of the regular supervisory function of the Bank's project staff. By the end of 1975 reports on about 170 completed development projects had been issued (Willoughby 1977: 30). Some role conflict may occur if the same personnel bears supervisory as well as evaluative responsibility. In practice, it is rare for the same Bank officials to be directly involved throughout the whole history of the project, from identification, preparation, appraisal and execution to completed disbursement. Nevertheless, early project officers may become the superiors of those charged with writing the PCR.

On the basis of the PCRs, the OED produces an internal *Annual Review of Project Performance Audit Results*, the third of which was published, after editing, in February 1978.

Most PPAs and PCRs do not try to assess the impact of completed projects on incomes, employment and distribution. There is not necessarily a close relationship between adherence to negotiated project agreements and project impact. Rates of return feature prominently in project appraisal, and thus also in project evaluation. Yet they are quite inadequate as major evaluation instruments in approving and reviewing loans.

Similarly, how is one to evaluate Bank macro or sectoral policy advice of the past in the light of constantly changing perceptions about the nature of the development process, the stress laid upon factors which are deemed critical levers, and improved awareness of the side effects of alternative sets of policy proposals? Countries differ greatly and policy advice has to take account of different and changing environments. More parties may be affected by policy advice than by project work, and the contribution of each participant is almost impossible to isolate.

Country Economic Reports and other studies of individual countries made by the Bank must be cleared by the governments concerned prior to publication, and can be obtained only by special written permission. Because they are printed in limited editions they are often unavailable. More sensitive material is not published at all, understanding being reached in face-to-face contacts.

Insofar as it is now realized that 'something has gone wrong' with development, those who attempted to influence past policies must take part of the blame, including the Bank. But with much past advice proving inapt, recipients may tend to be wary of accepting future advice from similar sources.

In addition to problems of access to the various types of Bank work and of finding yardsticks by which to evaluate them, due to the complexity, specificity and time perspective of each piece of Bank output, problems are created for any analyst by the nature of the information that is available to outside researchers. Official publications by the Bank provide a great deal of factual information about its activities. There are, however, limitations with respect to their usefulness for understanding the inner workings of the Bank. The Bank, like any large bureaucracy, has an institutional interest in presenting a picture of its activities which avoids touching upon issues thought to be controversial. For instance, U.S. Senator Ernest Gruening complained at one time: 'Publications by international organizations were virtually useless. Filled with euphemisms in order not to offend anyone, they become so bland and obfuscated as to be virtually meaningless. Congressional hearings provided only a few tantalizing clues... Thus the bits and pieces from published sources furnished only fragmentary insights' (*United States Foreign Aid in Action: a case study*, submitted to the Subcommittee on Foreign Aid Expenditures of the Committee on Government Operations, U.S. Senate, Washington 1966: Preface, vii). One might add: insight from a U.S. perspective. Analogous information from other countries is rarely available because their style of governmental and parliamentary operation is different. The issue, of course, is whether such publications by international agencies could be any different in view of the often deep conflicts between the numerous member states.

The major analytical study of the World Bank overall is that by Edward Mason and Robert Asher: *The World Bank since Bretton Woods* (1973). The authors have intimate knowledge of the Bank, having been associated with it as consultants or observers for many years. The preface to the book shows clearly that nearly everyone of any importance in the Bank has provided an input. Notably absent from that list is Irving Friedman who, from October 1964 to May 1970, was Economic Advisor to the Bank President. In reviewing the book, Friedman was tempted to add his own version of subjects in which he was deeply involved, and found it a pity that the authors had not expanded their work to two or even three volumes to provide an even more systematic and comprehensive study (Friedman 1974: 36-37). Yet this monumental 900-

page volume comes as near to being an official history of the Bank as is feasible, but with the independence, objectivity and academic tradition which the Brookings Institution required before accepting the commission, as well as part of the funding, from the Bank. It is, however, mostly a history of the Bank, from the Bank's perspective. The book covers the period 1946-71, leading up to the time when McNamara began to embark upon his policy to revamp the Bank to serve the needs of the poor, the focus of the present study. Despite its bulk, the complexity of the Bank's work is such that it is inevitably a bit thin in the treatment of certain issues.

Another useful and relatively recent book is Escott Reid's *Strengthening the World Bank* (1973). In particular, it has interesting things to say about the future organization of the Bank. Reid advocates a thorough decentralization of the Bank. As he was a Director of the Bank's South Asia and Middle East Department in 1962-65, his book is in several respects that of an insider, and thus interesting for a study of the organization.

A much more publicized book on the Bank is Teresa Hayter's: *Aid as Imperialism* (1971): the publicity stemming more from attempts to suppress its publication than from the value of its content. Hayter is too ambitious in trying to analyse the activities of the International Monetary Fund, the World Bank, the United States Agency for International Development, the Inter-American Development Bank and the Inter-American Committee for the Alliance for Progress in Colombia, Chile, Brazil and Peru. She should have realized that international agencies, like national agencies, are subject to various types of pressure by national governments and private interest groups. Allowance should be made for the fact that institutions may be structured in such a way that they have to behave in ways that are abhorrent to some. To portray them merely as villains overlooks the fact that they can also be victims – undergo pressure from some as well as put pressure on others.

Hayter's book is dated since it deals with her findings and assessments of the situation studied in 1967-68. As far as the Bank is concerned this is the pre-McNamara era. Yet it is useful in parts in that it looks at the Bank more clearly from the perspective of some member countries, and thus adds a perspective on which the Mason & Asher volume is rather weak.

There may be studies in developing countries which relate to projects or situations in which the Bank has been involved, and it would be worthwhile to collect them (both the Mason & Asher and the Hayter book provide a number of references). But whether it would be possible to validly and meaningfully generalize from such facet studies is open to doubt; such an analysis has not yet been attempted with the exception of the Colombia study by the Bank's Evaluation Department (1972). An undertaking to make more detailed case studies of countries' relations with the Bank would clearly be a major job.

Finally, a number of papers published by present or former Bank staff may shed light on a variety of issues in revealing within-Bank thinking as opposed to

Bank-thinking. Some 40% of the individually authored publications listed in the Mason & Asher book (pp. 884-890) are by people who at one time or another were or still are employed by the Bank. This material has to be used with caution. Some staff members may be prolific writers, but it does not follow that they have much impact on Bank policy. The contrary conclusion could also be drawn: they have time to write so much because they have so few other responsibilities within the Bank! On the other hand, and under certain conditions, it would be good policy for management to allow individuals other than Bank presidents or vice presidents to do some 'stumping': to parade a few 'in-house radicals' to pacify criticism from the left, and a few 'in-house conservatives' to pacify critics on the right. Moreover, it is often a popular line of defence for the Bank to point to its involvement in projects that could comply with every conceivable set of criteria: it has a project to please everyone and a project for all occasions! But the analyst must look for major trends and not for incidental occurrences. Literature on bureaucratic behaviour (Downs 1966) teaches us that the more complex and controversial an organization becomes, the more it tends to guard itself against attacks from diverse groups. And the Bank has become quite complex.

To supplement any written material that might be available, it would be helpful if it were possible to interview Bank staff members. In general this has to be prearranged and needs authorization by senior bank officials, because staff members are prohibited from communicating on their own to any person or agency outside the Bank Group. Such authorization has occasionally been granted for specific and limited purposes (White 1967; Weaver 1965). But even then problems may arise as, for instance, those encountered by Teresa Hayter (1971, especially 193-214). Prior authorization is also required before staff members can communicate with the Bank's Executive Directors. Much internal policy making escapes the control of the Board: the Bank's Executive Directors. The fact that staff are periodically reminded of this obligation, indicates that indiscretions in this respect do occur. After all, how can Executive Directors perform their function of supervising management, if they only have the information which Management decides they should have? Nor is senior staff and management above such practices as the 'planted leak' to trusted journalists and other forms of lobbying in attempts to influence public opinion on certain issues.

But even if authorization to interviews is obtained, it is still necessary to evaluate conflicting views. Key personnel are often no longer with the Bank or are unavailable. Others, sufficiently informed to be valuable resource persons, are reluctant to co-operate for a variety of reasons. Some may fear that anything that is not written in praise of the Bank will harm it, reflecting a complete lack of a sense of proportion. Others may have become dependent upon Bank patronage for contract research and/or future employment prospects. Regretfully, this patronage system extends deeply into the academic world.



All this information adds up only to the Bank's view of certain problems and issues. It would be necessary to check with the counterpart government or agency to hear the 'other side' of the story. Such an approach would obviously be financially costly and time consuming. The same problems of access, bias and perspective would arise, multiplied by the number of countries or projects which one wishes to study.

All these factors may help to explain why so little serious evaluative material exists on Bank operations over the first 25 years of its existence which could help in a judgement of whether and how the Bank can respond to the new challenge of assisting the poor.

From what has been said so far, it might perhaps be concluded that a comprehensive study of the response of the Bank is impossible. Also, the present study has had to be confined to a limited range of issues.

For better or for worse, the present is largely determined by the past: while the new rhetoric emphasizes change, new directions and new strategies, there is also a great deal of continuity. Hence, this book can be divided into two parts. Chapters II-IV deal largely with that past, and explore how the past has shaped the present, from which a search for a different future must start. Chapter II sketches the evolution of the functioning of the World Bank proper, the International Bank for Reconstruction and Development; the focus is on its main characteristics, financial resources, growth record and major operational policies as they have shaped up in the course of a 30-year history. Chapter III similarly treats the International Development Association, in existence since 1960, and the 'soft loan' window of the World Bank Group. Together these two chapters provide background material on the external environment within which the World Bank has to function and on the pressures with which it has to cope if it is to stay assured of its finances and thus of its survival.

Within this structural context, the various forms of Bank output are a function, *inter alia*, of the potential and capacity of its staff and their accumulated store of experience and knowledge, but also of the limitations resulting from background, status and attitudes. The World Bank staff differs in several respects from that of other UN agencies. It has not been subject to much public scrutiny, and hence it is now given more attention in chapter IV – perhaps more than is strictly necessary.

Together, finances and personnel determine the resources which the Bank Group may envisage employing in response to the new challenge of the 1970s and beyond.

Part 2, chapters V-VII, deals with various aspects of what a new deployment of Bank resources may entail. Chapter V attempts to document major trends in the post-war growth of developing countries and shows that there is considerable substance to the concern about this record expressed at the beginning of the chapter. The analysis attempts to find indications of the incidence of poverty as criteria for future reallocation of World Bank financial resources,