CONDITIONALITY AND TRANSFER GAMES BETWEEN
THE WORLD BANK AND LDCs

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World Bank's transfers or outflows to the less developed countries turned negative in recent years, as no new capital increases are being approved and the Bank establishes its own limits to external finance. On the other hand, conditionality, that was rather an IMF practice, turned into a major World Bank policy, as structural adjustment loans became an essential part of its operations. Actually, the scope of conditionality was enlarged, including environment and human rights issues. The outcome was a contradiction between conditionality and negative (to the LDCs) net transfers, that we will analyze in this paper.

When the World Bank was created, the assumption was that the Bank would finance governments in a similar way as investment banks finance industrial projects. For some time the Bank would have an outflow (a positive net transfer) to a given country, but once this country became developed, graduated, the flow of funds would be reversed. At present, for most countries this flow has been already reversed, i.e., it has turned into an inflow to the Bank, although a satisfactory stage of development has not been achieved. If this is so, and if it is not realistic to expect substantial new capital increases for the Bank, so that it will presumably stop being a net provider of funds to developing countries, can the Bank still be
regarded as a real development bank? Besides, given the fact that today most LDCs are highly indebted, needing debt reduction rather than a new flow of funds, what role can the Bank play in relation to them?

In order to answer the above questions it is useful to realize that various possible games can be played between the Bank and LDCs regarding net transfers and conditionality. The central argument of the paper is that cooperation rather than conditionality should orient World Bank lending policy. One key strategy to better policy outcomes is to promote the conditions for cooperative games and avoid non-cooperative ones between the World Bank and developing countries. A strong commitment to policy reform on the part of the borrower and external finance on the part of the Bank are essential ingredients for economic success. High conditionality only works with sufficient external finance and close cooperation between the World Bank and each individual country, whose government is sincerely committed to economic reform. Only after development was achieved and the country, graduated, negative net transfers to the LDCs or an inflow to World Bank can be considered a normal outcome.

This paper is organized as follows. Section 1 reviews the recent figures on net transfers from the World Bank to the different regions and poses the problem. Section 2 stresses the policy implications, especially in regard to conditionality. The idea is that conditionality can help only when there is cooperation between the multilateral organization and the country. Section 3 discusses different possibilities of degrees of financial assistance and conditionality, indicating games which can be played by the Bank and LDCs. A few policy guide-lines are suggested at the end of this section.

This paper is rather concerned with middle income countries that reached an intermediate level of development. It does not deal with the extremely poor countries, particularly the African ones, where the Bank has been a significant role as provider of IDA (International Development Association) resources.
1. The Financial Contradiction

As a development bank, the World Bank is committed to the economic and social growth of LDCs, but since it does not receive free money except for IDA operations,\(^1\) it is constrained to charge regular interest rates and fees for its services - the same rates and fees that commercial banks charge. If this is so, the logic it is pushed to follow is the logic of private banks, the logic of profit: the standard financial rule that in the medium term disbursements should be smaller than amortizations plus interest and fees. Yet as it is a non-profit organization, its clients - and sometimes its own officials - tend not to follow the golden rule of the good creditor: to lend only when return on investment is clearly higher than the borrowing costs to the debtor. On the other hand, net transfers between the World Bank and each country are defined by the sum of total disbursements by the Bank less total payments of principal, interests and services by the country. When the Bank ceases to provide a net inflow to LDCs - i.e., when the Bank's outflow turns into an inflow and net transfers turn negative to the LDCs -, only two alternatives are left. Either a country has already become reasonably developed before - this was the case of the West European countries after World War II - or the Bank ceases to perform a development bank role and is turns into a burden for the developing country.

In the very idea of a development bank there is an inner contradiction. The concept, starting with the World Bank, was based on an analogy with investment banks. Since the Pereira brothers created the first investment bank in France in the 19th century, the idea has been very simple. The bank will provide long-term financing for a given project - usually an industrial project. For some time the investment bank will have an outflow to the business firm that presented the project. However, as soon as the project becomes operational, the respective returns will be sufficient to pay the loan. It will be the investment bank's turn to have a cash inflow in relation to the firm, as principal is reimbursed plus interest.

In principle, a development bank should act like an investment bank. The difference is that besides the project and the firm (usually a state-owned enterprise), there is a developing country. Just as a firm's cash flow should become negative in relation to the investment bank
once the project is completed, so a country's cash flow should become negative once development is completed.

Yet this simple reasoning is mistaken. One thing is to complete development projects; to achieve development is an entirely different matter. A financed development project may be finished and provide a flow of funds that will repay the loan, but this does not mean that the respective developing country has achieved the economic and financial capacity to incur in long term trade and current account surpluses, acquire reserves in hard currency, and transfer them to the creditors. Nor, if the beneficiary of the loan is a department of the state whose output is provided free, it means that the state is able to generate the required fiscal surplus to pay the loan.

If the country is not yet developed, this means its per capita stock of capital is insufficient, indicating that besides more education and technology, it needs more capital. We know today that development does not depend only on resource mobilization and net-exports generating capacity. Human development, particularly education, and an efficient resource allocation through market mechanisms proved to be significantly more important to development than earlier views assumed. But capital remains an important factor. And negative transfers may represent a significant burden to development.

Thus, if the development bank has reached the point where it is supposed to get its money back, clearly it has also ceased to be a real development bank. It is no longer a net provider of funds. If cash flow becomes neutral or nil to the country, the development bank will look like a commercial bank that rolls - over debts. If it becomes negative, the development bank will actually be an obstacle to development. The World Bank is reaching the first stage - the stage of neutral cash flow towards the developing countries. The Table below is clear on the subject. Even including IDA disbursements the Bank's cash flow is tending to zero. For Latin America it is strongly negative. Thus, in truth it is ceasing to be a development bank and changing into a kind of commercial bank.²

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¹ Creditor governments guarantees may be considered an additional element of subsidy.
² For a more extensive discussion of this idea see Bresser-Pereira (1993b).
The point where a bank is supposed to stop having a negative cash flow in relation to a borrower depends on two variables: the bank's capital and the borrower's capacity to borrow. Both are limited. The bank cannot increase its capital for ever, and its borrowing in financial markets is supposed to maintain a certain relation with its capital. The borrowing capacity of a country is limited to its future capacity to pay. As the Bank's global cash flow has been tending to zero in recent years, it is clear that both limits are being achieved. There are no prospects of substantial new capital increases for the Bank, and most LDCs are highly indebted at present.

Table 1: Net Transfers from the World Bank (US$ million)

<table>
<thead>
<tr>
<th>REGION</th>
<th>1992</th>
<th>1988-92</th>
</tr>
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<tbody>
<tr>
<td>Africa</td>
<td>783</td>
<td>5,017</td>
</tr>
<tr>
<td>East Asia and Pacific</td>
<td>-264</td>
<td>-2,452</td>
</tr>
<tr>
<td>South Asia</td>
<td>1,429</td>
<td>8,406</td>
</tr>
<tr>
<td>Europe and Central Asia</td>
<td>-430</td>
<td>-6,469</td>
</tr>
<tr>
<td>Latin America and the Caribbean</td>
<td>-3,317</td>
<td>-6,003</td>
</tr>
<tr>
<td>Middle East and North Africa</td>
<td>-138</td>
<td>-1,098</td>
</tr>
</tbody>
</table>


Development economics and the Bank's founders did not pay enough attention to the fact that capital flows in the form of loans will necessarily reverse sooner or later, unless, after some time, no new loans are made except to roll over the old debt, and the rate of interest is inferior to the rate of growth of the borrower. As Cheryl Payer observes, "everyone who uses a credit card knows that you cannot spend more than you earn for a prolonged period of time without getting into trouble. And yet the conventional wisdom of development economics has been that this is exactly what Third World nations should do, because they are poor" (1991: 4). For sure development economics and the Bank worried about the problem. During a certain time, several exercises were done on the subject. But a basic, albeit misguided,
optimism prevailed. Pressure from LDCs, the profit motive for the commercial banks and bureaucratic expansion within World Bank were behind this optimism.

Yet the fact is that today the Bank is unable to provide an overall net outflow of capital to developing countries. It can have an outflow with some countries or some regions (that will experience positive net transfers), but at the expense of an inflow from others (that will experience negative transfers). The problem, as shall be discussed in section 3, is to determine how such flows are to be distributed among LDCs in order to preserve the development goals of the World Bank.

2. Limitations and Political Aspects of Conditionality

The introduction of structural and sector adjustment loans was conditional on policy reforms. Project loans were not working well, and no longer made much sense to the Bank, particularly on a moment where economic reforms to be urgently required. On the other hand, the crisis of state-led development strategy had left enormous imbalances in developing countries, urgently requiring balance-of-payments financing, debt reduction and fiscal discipline, besides trade liberalization, administrative reforms and privatization. The IMF was traditionally responsible for balance-of-payments and short-term fiscal adjustments. It had gone somewhat long term with the structural adjustment facility, but always made loans on a strict conditionality basis. Why should the Bank not make the complementary move, offering long-term structural adjustment loans? In this way, it would help the LDCs in their balance-of-payments problems, partially replace the commercial banks in financing highly indebted countries, and push for economic reforms. Besides, structural adjustment loans can more easily be made consistent with the financial limits with which the Bank and recipient countries operate. They may be more aptly compared with working capital finance, permanently rolled over by commercial banks, while project financing was germane to investment banks.

Thus, with structural adjustment loans the Bank was making a realistic move but it was also taking a political step. The new loans represented the Bank's passage into the realm of conditionality. It had always been a political bank. Lichtensztejn and Baer (1986: 206-215),
for instance, show how project loans were determined by political considerations. Communist regimes in Eastern Europe and unreliable political leaders in Latin America were excluded from the Bank's financing. Yet, conditionality as such was confined to the Fund. Only with the structural adjustment loans the Bank was formally entitled to directly influence economic policy. As Miles Kahler remarked, "structural adjustment lending by the World Bank also reflected the new orthodoxy and represented an even more dramatic departure for that institution than the new emphasis on Fund conditionality" (1990: 42).

Project-based loans were the object of numerous critiques, but the logic behind them was straightforward: the need for bank finance and clearly achieved results, according to the Bank's own internal assessment. Outcomes from the structural adjustment loans were less clear, given their excessive subordination to orthodox neoliberal views, and the intrinsic difficulties of imposing economic reforms on unwilling governments, or on governments willing to cooperate but lacking in political and/or technical capacity. According to a Bank study on adjustment lending (1990), countries that received structural adjustment loans presented only slightly higher rates of economic growth than countries that did not.

Yet neither the Bank's nor the Fund's influence on developing countries should be underestimated. Developing countries' shift towards market-oriented policies in the 1980s corresponded to a deep change in the world economy and to a fiscal crisis of the state indicating. It reflected a reversion of the cyclical pattern of state intervention, after an immoderate and distorted growth. It also corresponded to a historical pattern of growth, that usually begins with import substitution and strong state intervention, but sooner or later will tend to trade liberalization and increased market coordination. Thus, the shift to market-oriented reforms in the 1980s corresponded to a normal historical trend, particularly in Latin America, which had been artificially postponing them during the 1970s. Yet it is impossible to understand this shift if we do not take external influences and leverage into consideration,

3 On economic reforms and the cycles of state growth, see Bresser-Pereira (1993a).
4 See Gustav Rannis (1981). This reasoning led Paul Mosley (1987) to argue that the appropriateness of structural adjustment programs depends on the stage of development of each country. Middle income countries have already reached the stage where the transition from inward-oriented to export-oriented strategies makes sense. But this is not true for countries in an earlier phase, such as most African countries.
particularly the Fund's and the Bank's. Conditionality may not have worked in specific cases, but the institutions' impact upon LDCs was considerable. As Barbara Stallings observes,

it may well be the case that many individual Bank and Fund programs have been a failure, either in letter or spirit, so that their influence appears small. But, if the question is why the general thrust of Third World economic policy was so different in the 1980s than in the 1970s, the international factors loom large (1991: 3).

For middle-income countries conditionality has always been the major concern. The critiques they made of the Bretton Woods institutions are related to them. According to them, conditionality represents an intrusion in internal affairs of LDCs, and assumes the incapacity of the local authorities. Nevertheless, as Joan Nelson underlines, "actual compliance is greatest where governments are already strongly committed to reform" (1989: 19). On the other hand, Nelson and Kahler distinguish between local governments' commitment to reforms and their ability to undertake them. Governments without political capability, even willing to introduce reforms, were not able to do so. As Kahler observes: "a number of divided and paralyzed governments could not be pushed into such (reform) programs despite clear external pressure; their internal political authority had eroded, and domestic resistance was calculated to be too great" (1989: 147).5 When governments are divided and paralyzed this usually means that the state itself is in deep crisis. The public debt - domestic and foreign - may have become too big. A serious fiscal crisis may have developed, requiring some form of public debt consolidation and/or cancellation, thus making conventional adjustment policies ineffective. If the Bank does not take this fact into consideration and reduces conditionality requirements, while expressly try to help a willing government to strengthen the state capacity, reforms will most likely fail.

If the national economic team truly agrees with the Bank's policy prescriptions, conditionality can help rather than hinder reforms. It can be used to get acquiescence from Congress, province governors and ministers for the required reforms. Moreover, conditionality may help to attenuate the problem of lack of credibility of a particular policy to

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5 In the same vein the Group of Twenty-Four Report (1990: 11) affirms: "Since the reality is that so-called 'non-economic' considerations often have economic consequences, the Fund (and the Bank) would be jeopardizing the success of adjustment programs by ignoring them."
the extent that agents perceive its implementation as a serious, and to a certain extent irreversible, commitment to the World Bank or the IMF. Conditionality may thus constitute another example of a situation in which reducing the degree of discretion of policy makers might provide a better outcome.

However, whenever conditionality represents imposition, reforms have little chance of success, be because the local government will not be fully committed to them, be because there is a significant possibility that policy recommendation are just wrong. The assumption that opposition to policy reforms Washington supported comes exclusively from populist politicians is dangerous. The way multilateral organizations faced, in the recent past, the debt crisis, the stabilization of high inflations in Latin America, and radical economic reforms in Eastern European, is subject to serious objections which have little or nothing to do with populist resistance. As Mosley, Harrigan and Toye (1991: 137) observe, "a set o problems arise when the loan conditions are inappropriate to the economic context, either because they are the embodiment of badly designed policies, or because the context is changing in unforeseen ways, so that the implementation even of well-designed policies would be wrong in practice". Fiscal adjustment policies and market oriented reforms, supported by the Bank in the 1980s, were effective to stabilize balance of payments. Less effective in stabilizing prices, that, when achieved, were the outcome of shock treatments outside a conditionality agreement. And still less effective in promoting economic growth, that remains shabby in the countries that faced the debt crisis and a deep crisis of the state.

3. Games Between the World Bank and LDCs

There is considerable frustration with the fact that the World Bank is no longer a net provider of funds to developing countries. This situation will probably continue in the foreseeable future since no increase in the Bank's capital is likely and potential borrowers still show a high level of indebtedness.

6 For a discussion of the major problems and in particular the difficulty of the multilateral organizations to adjust their way of reasoning to "abnormal times", see Bresser-Pereira (1992).
Developing countries usually concentrate in their critiques of the Fund and the Bank on the excessive severity, the standardized character and the subtle arrogance that are embodied in conditionality. The real question is whether structural adjustment loans coupled with unilateral conditionality can constitute a meaningful strategy. Our view is that it can - after all, every creditor has the right to impose conditions that secure the repayment of the loan -, provided that conditionality be moderate and cautiously used. Actually, the strict dependence of loans to the fulfillment of given policy targets, besides unrealistic - the Bank has no alternative but to roll over, at least partially, its credits, so it is constrained to finance independently of the recipient's performance - may only be efficient when net transfers to the country are positive (a Bank's outflow) and the local government is indeed willing to push through market oriented economic reforms.  

It is essential to be modest in this matter of conditionality. Not only because the effective power the Bank has is limited, but also because the possibility that the policies that are being recommended are inefficient should not be underestimated. External influence, particularly ideological influence, is powerful in LDCs. But this influence is only effective if, the conditions, besides being modestly and flexibility defined, have as its counterpart (1) competent and critical local governments, that are willing to reform and adjust, and (2) states that have not lost their capacity to sustain the local currency and effectively regulate the functioning of markets. It is of little use to obtain the compliance - or capitulation - of incompetent and corrupt governments. On the other hand, if the state that the government is running is bankrupt, victim of a deep fiscal crisis, conventional reforms may not be demanded from it, while radical measures are not taken to reduce or consolidate its public debt.

The fact that negative net transfers between the World Bank and the developing countries became rather the rule than the exception, and the principle that there are clear limits to conditionality, has important implications for policy, particularly if we put together fact and principle. There should be a differentiation of conditionality criteria according to the situation of the flow of funds between the Bank and the LDCs. The following two-entry

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7 The Bank concedes that "in almost every case release [of the second tranche of the loan] has eventually been made, even though the original conditions were substantially less than 100
matrix illustrates the point. In this figure - where we depict Conditionality (Low and High) in the lines, and Net Transfers (Negative and Positive) in the columns - we can see four "games" between the Bank and developing countries. A fifth game, the “Neutral Game”, corresponding to cell E, does not appear in the figure but can be imagined in the center of it: net transfers are around zero, and conditionality is not either low or high.

**Figure 1: Games between the World Bank and the LDCs.**

<table>
<thead>
<tr>
<th>Conditionality</th>
<th>Net Transfers</th>
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<tbody>
<tr>
<td></td>
<td>Negative</td>
<td>Positive</td>
<td></td>
</tr>
<tr>
<td>Low</td>
<td>A</td>
<td>B</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Winners’Game</td>
<td>Permissive Game</td>
<td></td>
</tr>
<tr>
<td>High</td>
<td>C</td>
<td>D</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Confictive Game</td>
<td>Potential Winners’Game</td>
<td></td>
</tr>
</tbody>
</table>

The conditionality games may be cooperative or conflictive. The implementation of the conditionality may be in the mutual interest of the donor and the recipient, or may be not. The fact that governments of developing countries often did not spontaneously implemented the Bank's policies does not imply that they are conflictive, although is an indication of the fact. Mosley, Harrigan and Toye (1991: 68-69) also build games between the Bank and the developing countries, but starting from the assumption that "the parties have (at least partially) opposed interests" and that there is "an inherent conflict of interest between the borrower ant the lender of conditional aid". Another difference is in the fact that the three authors do not consider net transfers as a variable. The game is directly related to three stages or acts in the conditionality process: (1) negotiation of original conditions, (2) implementation process by the recipient, (3) decision by the donor to grant or refuse further finance.

In the matrix we built, high and low conditionalities are outcome variables, defined in terms of net transfers. They may depend on the Bank’s decisions, but they evaluated according to results rather than intentions. "High conditionality" means simply that the Bank will have negative net transfers with the country, unless it will meet macroeconomic and reform targets. This will probably be the outcome loan restrictions by the Bank, but may be not. "Low conditionality" applies when the Bank have net outflows to the country in spite of fiscal indiscipline and resistance to reform. It also applies when net outflows are negative just because the country graduated and is already able to start paying its debts.

Cells A, B, C and D correspond to the combinations of the above two criteria. A fifth cell, which does not appear in the figure, E, corresponds do the "Neutral Game", where net transfers are around zero and conditionality is neither high nor low; alternatively, this cell could be called the "roll-over" game.

Cells A and D could be seen as the normal or cooperative cases whereas cells B and C involve some kind of distortion and non-cooperative games. Cell A, that we propose to call the "Winners' Game", typically includes countries which have succeeded in attaining development and are no longer natural demanders of World Bank money. Korea would be the most illustrative case. The World Bank has had an important role as a provider of foreign funds and policy advice during the post-war period. Presently, however, there is a negative net transfer of US$ 500 million in 1992 and of US$ 3,643 million during 1988-92.8 To the extent that Korea has achieved a satisfactory stage of development, the negative net transfer from the World Bank can be seen as a natural consequence of a success story.

Cell D - "Potential Winners' Game" - is the cooperative game par excellence. It includes countries with high conditionality and positive net transfers. Their policies, which are proving correct by positive outcomes, have been closely followed and approved by the Bank. These countries should represent potential success cases and are in principle showcases for the rest. Actual success will crucially depend upon the capacity to increase the investment ratio and generate the funds to pay for loans in the future. Mexico fits best in this

cell at the moment. Mexican policies have deviated little from the prescriptions of multilateral organizations. Trade liberalization and privatization have been implemented extensively and the stabilization policies adopted since late 1987 have succeeded in lowering inflation. Since the supply of external finance is a crucial condition for policy success, in principle there is a virtuous circle insofar as financial support makes it viable for a country to promote the changes necessary for adjustment. More importantly, social groups inside and outside government who are in favor of reform become politically stronger, making it more likely that reformers will become a winning coalition.

Cell B - "Permissive Game" - corresponds to a non-cooperative game on the part of the borrower. It may indicate a not so prudent allocation of World Bank resources since transfers are being made without detailed requirements in terms of policy. India before 1992 - i.e., before she engaged in substantial market oriented reforms - could be an example for this case. In the past, India has received substantial financial support without undertaking the corresponding market-oriented reforms; the net transfer was US$ 4.8 billion in the period 1988-92.9

The problem with Cell C, that depicts the "Conflictive Game", is of a different nature, since this is a non-cooperative game on both parts, but particularly on the part of the Bank. There is an attempt to interfere in a significant way with national policymaking without much support in terms of loans. The borrower, on its hand, is not adopting or adopting only partially the recommended reforms. Brazil could be put in this cell. Policy requirements have been systematically high without much support in terms of financing. Reforms, particularly trade reforms, privatization and fiscal adjustment, were unilaterally undertaken, particularly in 1991-1992, but inflation remained extremely high. There was a negative net transfer of US$ 4.6 billion during the period 1988-92 and of US$ 1.3 billion only in 1992.10 Such a situation tends to weaken sectors inside the country willing to follow World Bank policies and accentuate tendencies to deviate from Bank reform proposals. Actually the outcome is a vicious circle, where resistance to reform and lack of foreign financing build on each other..

10 World Bank Annual Report 1992, p. 149
The previous two-entry table is helpful in suggesting a few policy guidelines. First, the only case in which negative transfers are justifiable is in the Winners’ Game (Cell A). If a country is not yet a winner, if it has not graduated, net transfers should be around zero and conditionality should not be high or low, but average. In other words, in this case the Bank should move to fifth Cell E, making the game neutral. Cells B and C which portray non-cooperative games should definitely be avoided, as should cell A when the country is not a winner.

In any case, the Bank should adopt modest goals in terms of conditionality and carefully evaluate its transfers. It would naturally be desirable for the Bank to correctly identify as many potential winners as possible. Yet, since resources are limited, positive net transfers to some countries will only be possible if they are financed by negative net transfers to countries which have already achieved development. The alternative of financing them with negative net transfers from countries that are not "well behaving" constitutes a Conflictive Game, that is as pernicious as the Permissive Game. Contrary to what is presently happening, financing of potential winners should not come from negative net transfers from LDCs which are still highly indebted and in difficulty of paying their long-term debts.

Second, given the limited amount of resources and the difficulty of increasing the Bank's capital, it should also be very selective in using the scarce funds available. They should be channeled to a handful of Potential Winners, whose governments are clearly willing to cooperate, and essentially agree and are committed to the policy prescriptions. Yet, some caveats are necessary. The Bank is not supposed to know all the problems the country faces. In certain cases, particularly when the country faces abnormal crisis - hyperinflation, for instance - the Bank should depend more on the willingness of the local government to adjust and reform and on the technical capacity of the economic team than on the attainment of policy targets that may be doubtful. Successful adjustment requires flexibility and pragmatism rather than preconceived formulas or ideological bias.

The Korean case is illustrative at this point. The structural loan agreements of 1981 and 1983 were not accompanied by specific conditionality. According to Dailami (1991: 402), "the government had a considerable degree of policy flexibility and manoeuvrability, which
proved to be important in the volatile world economic conditions of the early 1980s. For example, the government's unwavering support for the expansion of the automotive industry, despite the World Bank initial reservations, led to handsome returns as exports of vehicles grew more than fourfold between 1980 and 1985”.

Third, when a country faces difficulties and is not being able to adjust and implement reforms, the Bank may decide to wait and see, i.e., to have around zero net transfers, instead of imposing high conditionality. This is the more prudent policy. These countries should have the benefit of the doubt in terms of conditionality. It would be more realistic to set or to advise general policy guide-lines instead of insisting on any kind of close monitoring.

Fourth, emphasis should be placed on generating the means whereby the borrower will be able to repay in the future without having to resort to further external debt. This requires increasing the capacity to generate internal savings and channeling them to productive investment. High conditionality should thus include clear investment targets in addition to the usual performance criteria.11

The Bank will have to acknowledge a double financial constraint: its own limited financial means, and the limited capacity highly indebted countries have to increase their debt ratios. In other words, it will have to recognize that the times when it could provide substantial net resources to developing countries are over. Instead of being a development bank proper, the Bank is turning into a public commercial bank and a service institution oriented to economic development. As such, modesty, a very limited use of conditionality, and strong cooperation with competent and cooperative governments will have to be the rule.

REFERENCES


11 French-Davis and Meller (1990:28) contain a number of suggestions as to how stimulate investment.


