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REPORTS

WORLD BANK

Economic and Political Implications of the New Lending Criteria

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The World Bank is a genuine investment agency. This fact seems to be self-evident, yet not fully realized by a larger public. At present, the World Bank (IBRD), together with its affiliate, the International Development Association (IDA), is also a multilateral development institution, the largest in the world. The purpose of this paper is to analyze how this dual role influences the Bank's lending criteria in the less developed countries (LDCs) as well as the attitudes of its creditors.

The Bank followed quite conservative, profit-oriented banking principles for its investments in the Third World. Based on guidelines such as sound rates of economic and financial returns of invested capital, the creditworthiness and economic performance of a country, its absorptive capacity and other growth-oriented factors, the Bank has been successful, even though its lending criteria are sometimes criticized as "neo-colonialist", capitalist, or „interventionist" by those who favor the more progressive approach of the New International Economic Order.

The success of the Bank's development lending policy can be measured by two facts: Firstly, with a steadily increasing volume of lending to the LDCs reaching $ 6,877.4 mn and a total of 214 loans and credits approved in 1976, only about 10 p.c. are "problem projects" [1]. These projects need special attention, but might still be considered partially successful.

Secondly, for the creditors, it is important to know that the Bank has virtually had no defaults, i.e. its loans have always been repaid [2] and made a profit each single year since 1948. However, the dual role of the Bank as an investment agency and as a development institution might enhance the problems of a conflict of interest between borrowers and lenders. The implementation of the new lending criteria shows how the Bank manages to reconcile such often conflicting interests. This paper deals with the impact of the new lending criteria in the borrower countries and with their influence on the creditors.

Aims of the New Lending Criteria

Since the end of the "First Development Decade" as declared by the United Nations (1960–1970) there was a growing awareness inside the profit-and-growth-oriented World Bank that the *aims of improved income distribution and social betterment* became increasingly important in development. As a logical consequence, a shift of emphasis in the lending pattern followed, from large, but comparatively simple, infrastructure projects to "new style projects", "directly benefitting the poor masses", like the more complex, integrated, sometimes regional or local agricultural projects with their diversified aspects of social services. This did not mean, however, that the more traditional electrification and highway projects were dropped, but rather that the new ventures signified an expansion of lending for more "experimental" projects. The new aims of development lending were focused on not only increasing the per capita income of the poorest *countries*, i.e. those with a per capita income under $ 200 per annum. They also implied helping the poorest *segments of society within* a nation, the "absolute poor", living below a poverty line defined as the monetary equivalent ($ 50 per capita per annum in 1971 values) of a subsistence calorie ration, as well as the "relative poor", namely those living on an income under one-third of the national average.

* World Bank.

1 Warren C. Baum, The Project Cycle, reprint from "Finance and Development", quarterly publication of the IMF and the IBRD, June 1970, p. 13.

2 Eugene H. Rotberg, The World Bank – A Financial Appraisal, May 1976, pp. 17 and 12.

"Making the poor more productive" meant an emphasis on projects aiming at employment creation, the use of labor-intensive intermediate technology, investment in human rather than material or physical capital through training, growth and improvement of food production methods in agriculture, including the creation of farmers' credit unions, state price and sales guarantee systems, and other measures. The newest ventures are in urban renewal, but compared to aid to the rural poor, lending for urban renewal is still modest in scope. The new aims in development lending could best be summarized by the slogan "growth with equity, or justice", where the latter becomes only relatively meaningful through the achievement of the first, namely growth in order to generate resources, which, as a second step, can be distributed. How then did the World Bank implement its new lending policy to assist the poorest? It had to devise some new instruments in order to make more development finance available to the poorest LDCs. The main tool of development lending to the poorest remained the soft-term credits of IDA, founded in 1960, which in 1976 accounted for about 25 p.c. of total Bank lending. In order to free greater amounts of the limited IDA-funds to LDCs with a per capita income under $ 200 per annum, the "Third Window" became operational in fiscal year 1976: It was a lending facility with an interest rate in between normal Bank loans and IDA grants (ca. 4–4½ p.c.), a grace period of 7 years and repayment requested after 25 years, supplemented by an interest subsidization fund established through voluntary contributions from member countries [3]. The beneficiaries of the Third Window, a temporary facility originally established for one year, were countries with a per capita income under $ 375 per annum in 1972. Although the poorest could not afford Third Window loans, they benefitted indirectly from larger amounts of IDA credits left for them. These credits are given interest-free, with a small service charge of 0.75 p.c. for 50 years. A second device for freeing more money for the poorest countries is the *blending* of IDA credits and Bank loans: Countries [4] with a potential capacity to repay, receive a blend of loans, partly on Bank, partly on IDA terms. The reduction of the number of countries eligible for loans, the so-called "phasing-out" could mean more funds available for other borrowers, though not necessarily the poorest ones.

A third device attempting to increase aid to the poorest is the IMF *Special Trust Fund,* financed by one sixth of the profits from IMF gold sales for providing balance of payments deficit relief [5]. Eligible for aid from the Special Trust Fund in proportion to their IMF-quotas are countries with a per capita income in 1973 under $ 300 per annum. This Trust Fund, becoming operational in 1976, should work like a kind of re-insurance scheme. If judged only by its IMF-quota, India alone would be entitled to 25 p.c. of the total, followed by Indonesia, Pakistan and Egypt.

These three most recent financing measures should directly or indirectly contribute to increase the flow of financial resources on soft terms to the poorest countries.

Results of the New Lending Criteria

What results did the implementation of these new lending criteria yield? The first preliminary findings suggest a success in achieving higher allocations to the poorest countries and to the poorest segments of society in LDCs compared with the two other major sources of official development aid, the funds of the Development Assistance Committee of the OECD and those of OPEC. Due to the aforementioned time factor, the results can, however, be but provisional, especially for the assessment of any long-term social benefits to the poorest through project lending, but they nevertheless clearly indicate a change in the allocation pattern, due to the new perspective in development: Since 1975 agriculture is the largest sector of lending, whereas traditionally it was power and transport, the IDA allocations to countries with a per capita income under $ 200 per annum really increased and, although IBRD-loan conditions hardened, more concessional aid did become available to the poorest. "Integrated rural development", i.e. all-inclusive, but multi-facet projects were initiated in a "step-by-step" approach, occasionally creating a network of single, smaller development ventures. Yet the evaluation criteria judging an entire economy remained essentially the same. Despite the Bank's commitment to these distributive social aims, it maintained the rather conservative principles which had been the basis of successful project lending in the first development decade: It kept an extremely high liquidity level compared to commercial banks, it maintained the necessary flexibility for the "new style projects", its criteria for creditworthiness are harder than those of many commercial banks, in 1976 the interest rate on loans was 8.85 p.c. with an average maturity of 11 years, and it has a debt/capital ratio of 1:2.4, whereas commercial banks

[3] The main contributors to this fund are: Saudi Arabia ($ 25 mn), Canada, Kuwait ($ 20 mn each), the UK and Venezuela ($ 10 mn each), Switzerland ($ 5.9 mn), the United Arab Emirates ($ 5 mn), Norway ($ 4 mn), Denmark ($ 3 mn), Qatar ($ 2 mn).

[4] There are 45 "IDA-Blend" countries and 41 "pure" Bank loan countries foreseen in a 1976 analysis of the lending program during the fiscal years 1975-1979.

[5] See "Finance and Development", Vol. 13, No. 5, December 1976, pp. 30-31. This Fund will operate in two periods of 2 years, from 1. 7. 1976–1. 7. 1980, with an estimated capital of $ 500 mn p.a.

usually have a debt/equity ratio of 20:1 without any limitations on loans.

According to its Articles of Agreement, the Bank can never lend over and above the amount of its subscribed capital (ca. $ 31,000 mn in 1976 values), surplus and retained earnings (reserves), keeping a very conservative ratio of disbursed loans to capital and reserves of 1:1. Hence the Bank has an upper limit to its disbursements, which commercial banks do not have to respect. The Bank still tries to assess the borrowing countries' creditworthiness according to economic parameters such as i.a. savings-rates, "openness of an economy", balance-of-payments position, debt-service obligations, keeps a strict control of disbursements, which reduces corruption, and closely checks on each implementation phase. The Bank itself pays the bills on project costs, and insists on the country's *own economic performance*, essential for any lending decisions. International competitive bidding is still the main method of procurement for projects, yet these rules have been adapted to include preferences for local participation. In the poorest countries, however, local cost financing is assumed by the Bank.

The positive *economic* results in the implementation of the new investment criteria, however, raise numerous *political* questions: Does the Bank's involvement in more complex social projects mean a growing intervention in the internal affairs of domestic policy of an LDC? Will the role of the sound banker be "undermined" by the social concerns of helping the poorest in the LDCs, and therefore diminish the Bank's credibility on the creditor side? Will increased aid to the lowest income countries not stimulate the political and economic rivalry already evident among the group of 77? Are the "target groups" chosen among the weak (the poorest by definition have little political power) really those who promote national development in the long run? What is the fate of a "popular" rural project without the support or at least consent of the elite in an LDC? Can the Bank, as an "outsider", really reach the poorest without losing credibility in the eyes of the local government? Can the Bank assist in creating an equilibrium of political power between the social partners (trade unions and employers' associations)? Is the Bank's commitment to liberal capitalist economic systems and free enterprise not contrary to the proclaimed social and distributive aims? Is the free enterprise principle not hampered in its practical application by growing government responsibilities in the economy of the LDCs? Are the sociological and cultural aspects sufficiently taken into account in the Bank's very highly developed, but rather exclusively economic, evaluation procedure? There are more such political, or not purely economic, questions than answers, but enough economic indicators to prove the Bank's generally positive political influence.

Positive Trends on an International Level

On an international level, four positive economic trends with political side-effects appear as results of the implementation of the distributive development goals:

☐ The Bank attempts to reduce the "small country bias" which is slowly diminishing. This bias meant that the Bank gave on a per capita basis relatively much more to smaller, i.e. less populated countries, with a population under 2 million, than to those with a population of over 25 million. However, this small country bias was markedly less pronounced than in concessional aid from other sources. The poverty criterion tends to correct that bias now in favor of larger countries, consequently increasing local cost financing by the Bank.

☐ The Bank attempts to compensate for former lending by increasing its allocation for countries having received less than "their share" or decreasing it, if they had received "too much". In the IDA-blend group, a bias for a *positive compensation* appears in favor of some Arab countries like Egypt, Jordan and Yemen, A.R. Such positive compensation may also help the "real" Bank to generate more finances for development from Arab sources. The political side-effect of such compensation could be to free more funds for an arms race in a region where a very precarious state of unsettled peace prevails. *Negative compensation* is decided on grounds of poor economic performance for countries like Burundi, Chad, Guinea, Nepal. In the "pure" Bank loan group, countries like Yugoslavia, Mexico, Panama and Syria (all with income levels above $ 1,000 per capita per annum) are possible candidates for reduction.

☐ Countries, which according to conservative economic Bank standards are not yet creditworthy, but have a high resource potential, can nevertheless receive assistance through "enclave-arrangements", mostly for large mining projects. Enclave projects have often few linkages with the national economy of the LDCs in their first implementation period, but this does not mean that they are not useful for later development, even though their concept is somewhat "neocolonialist": The LDC gets the funds, skilled manpower and infrastructure necessary for the exploitation of its resources, which it could otherwise not afford.

☐ There is a trend of Bank loans to *attract or reinforce flows* from other sources of official and private aid. This is due in part to the professional prestige, technical skills and financial credibility of the Bank. It also shows a trust in the Bank's judgment of relative stability of the government or the political system in an LDC. Private investors also follow because the Bank, having the reputation of being very cautious and not taking great risks, reduces their anxieties about nationalization, expropriation, social unrest, or other internal hazards in the borrower country. The strengthening of political stability by economic well-being may be a side-effect of this trend.

On the *institutional* level, another factor may help to reinforce credibility of the Bank in the creditor countries: IDA is a separate entity, an affiliate of the Bank. Although they work together, especially in the IDA-blend group countries, the Bank's financial strength is not affected by the fate of IDA. This means that Bank lending could continue despite the discussions about and delays in the fifth replenishment of IDA. Nevertheless the lack of funds for IDA would considerably decrease the assistance to the poorest countries.

Activities on the Domestic Level

On the domestic level the implementation of the poverty criterion includes several procedures designed to solve political and social problems common to many LDCs. The Bank's leverage[6] or influence is sometimes said to go as far as "imposing its own projects" on borrower countries. This is an exaggerated allegation as a project can only be successful if it is fully backed by genuine local involvement. Even if not all projects are successful, failures may occur for numerous other reasons than the Bank having "imposed its own projects". As social and political structures are usually rather weak in most of the newly independent LDCs, the Bank is firmly committed to *institution-building*. It not only works with existing regional development banks, and through formation of aid consortia and the more loose consultative groups of potential investors for important borrower countries, but has accomplished much through sponsoring the development finance companies (DFCs), as national lending instruments, designed originally to assist medium firms in private industry.

As a consequence of the recent more flexible application of the principle "to support private industry", the Bank increasingly supported mixed and government-run ventures, also in order to help with "institution-building". However, the new task of assisting small businesses in LDCs, although desirable from the aspect of distributive ownership over productive assets, is quite difficult. The persuasion and motivation of local project participants is, however, not only achieved by institution-building. The Bank's "development diplomats", also try to win national, i.e. government, government agency or ministry support for projects. Experience shows that the "demonstration effect", a project's second measure of success next to its profitability and economic rate of return, is greater the more committed a national or local "leading figure" is to the project. The Bank tries to stimulate such local patronage as a guarantee of continuity of the development effort after it has, as an "outsider", withdrawn from the project. It is clear that, as in industrialized countries, government agencies are often in disagreement over the economic priority of a project, its importance to national development, etc. Hence the Bank's "diplomat's" task is further complicated by not only weak, but often centrifugal, political forces. If the Bank proposes a change in tax legislation in order to improve a country's economic performance, the government must have enough political cohesion to be able to enforce sometimes unpopular decisions, and, "leading figures" being of primary importance to development, not to estrange the intellectual, political and financial elites from its ventures. Also governments tend to think in terms of election periods of four years or less, and it is sometimes hard to raise interest for a long-term development path, the pursuance of which imposes, even with or because of the Bank's economic advice, inevitable hardships.

Another step to tie projects very solidly into national political structures has been the regionalization of certain activities through the establishment of resident missions. It is debatable if such decentralization, complicating the formerly extremely centralized decision-making process outweighs, through increasing the institutional inertia of the Bank, the sought advantages of closer contacts in the field.

A further more recent development has been the creation in 1976 of a $ 5 mn Special Project Preparation Facility, designed to help the poorest countries in competent and thorough project preparation. The Bank, through its highly qualified staff, gets more and more involved in project preparation, although in principle, this should be the borrowing countries' responsibility. As a result of implementing the poverty criterion, it is, however, necessary to give technical assistance to those countries unable to prepare "good projects" according to Bank norms. Project preparation

[6] See Edward S. Mason and Robert E. Asher, The World Bank since Bretton Woods, The Brookings Institution, Washington 1973, Chap. 13, pp. 421-433.

takes up a large amount of Bank staff hours, and the new Project Preparation Facility is also expected to have an external management training effect in the poorest countries, eventually helping them to overcome their difficulty of scarce competent project personnel.

Last but not least, the criterion of "economic performance" on which a country's creditworthiness is based, depends not only on growth rates and economic variables in general, but also to a large extent on domestic policy decisions. The Bank deserves credit for having acknowledged at a relatively early stage in its "new style projects" that for the implementation of its socially-oriented lending policy in favor of the poorest, skillful development diplomacy is just as important, if not more so, than capital investment. Because it seems as if such "socially oriented" projects have much greater political implications than those undertaken earlier by the Bank. Moreover, it is striking to see that the Bank, as an investment agency could retain its professional prestige and remain undisturbed by "politization" in the negative sense, which hampers so many ventures of the United Nations and its specialized agencies, although it possesses considerable political influence on a national level in the LDCs.

The Impact of the New Lending Criteria on World Bank-Creditor Relations

In order to understand the reaction of the creditor countries to the "new style" lending policy, it is necessary to analyze their private investors' and governments' *motivations for lending*. They fall into three main categories: Economic, political and ethical motivations.

The first motivation of an investor is an *economic* one, namely profit. The Bank has privileged access to all industrialized countries' capital markets because it "brings business" with comparatively little risk-bearing. The proof that not only private investors, but also governments have strong economic motivations, especially in times of slight recession, and wish to promote their export industry (which normally has a powerful lobby to defend its interests), lies in the fact that today the larger part of aid is still *bilateral*. Bilateral assistance is especially predominant in OPEC's project structure. The new social orientation of the Bank's projects and the ensuing emphasis on local cost financing and promotion of local firms has led to the apprehension in creditor countries that fewer contracts will go to their industry.

It also becomes, even with the very sophisticated methods used by the Bank, increasingly difficult to measure the economic and financial rates of return of long-term social services, integrated rural development or urban upgrading projects, as compared to the rather more simple economic cost-benefit analysis, which had been possible for the Bank's earlier infrastructure programs.

The freer access to capital markets by LDCs stipulated in the New International Economic Order is also not going to materialize in the near future. Also, the LDCs are competing on those markets with industrialized deficit countries like the UK and Italy which can be said to take financial flows away from development aid. Considering these economic motivations of creditors, it is up to the Bank to strike a very careful balance between its profit-oriented role and its social goals in development, maintaining its highly trusted reputation as an investment agency. *Political motivations* loom large in creditor countries. Some maintain post-colonial ties through investment, particularly evident in the schemes of the "European Development Fund" of the Common Market. Others invest in order to indirectly strengthen one or the other approved systems of government or economy. The economic performance criterion can always be used for backing up a certain political future outlook.

Creditors are, of course, anxious to invest in countries with which they want to have close political relations. On the other hand, being accused of political partiality in bilateral lending, they sometimes prefer to support the Bank's multilateral approach for being more *neutral*. The Bank's enlarged co-financing might not be completely free of political risks: If, for instance, Arab banks are increasingly co-financing World Bank projects, the political power structure in project work also changes. The recent guarantee technique of having a political ally take over the State guarantee for a loan like Saudi Arabia did for Egypt might also introduce considerations of bloc-politics into the so far unpoliticized allocation policy of the Bank. Co-financing necessarily implies a split-up of institutional, economic – and political – competences, which can have not only positive, but also negative effects.

The Bank has so far successfully managed to maintain its independence as an institution vis-à-vis its creditors and a striking objectivity in its lending policy for projects with a constantly growing content of domestic and foreign policy decision-making. Despite its original, still respected principle of favoring private enterprise, the Bank has been increasingly involved in supporting government-run ventures, with all their consequences of political involvement. It can be said, however, that even with a basic "capitalist" outlook, the Bank was quite successful in countries with planned economies as well.

Ethical motivations do play a role in lending policy, although they are less predominant in decision-making than economic or political ones. The whole issue of "direct attack on rural and urban poverty" implies the humanitarian, egalitarian – or Christian – aspect of sharing, of helping the underprivileged, the "underdog". Countries like Sweden and the US use human rights issues, but the US also insists on the right of its citizens to be duly compensated for expropriation in order to oppose certain loans.

It often appears as if ethical motivations are used by creditor governments for political window-dressing before their own public opinion and would not seriously affect their relations with the Bank. In general, it is correct to say that in the Bank-creditor relationship the role of the investment agency (loans on normal terms) is more trusted and supported out of economic and political motivations than the social orientation represented in their view mainly by the soft money credits of IDA, which creditors should support not only for materialist, but also for ethical reasons.

There is common agreement, however, that any lending policy should always have a *distributive effect*. Opinions of creditors differ, nevertheless, but less over the basic principles than over the proportion of lending going to "new style projects" and over the necessary degree of continuity in the lending flows sufficient *not* to jeopardize projects already started.

Conclusions

With relatively unchanged, rather conservative, principles the Bank achieved a great deal, also in "new style", socially-oriented, labor-intensive projects, and did bring about slow, evolutionary changes in the LDCs' economies. Compared to other international agencies concerned with development, the World Bank presents some *unique features.*

Unlike the specialized agencies of the UN, the "European Development Fund" of the Common Market, or the Development Assistance Committee of the OECD, it is not a purely intergovernmental organization depending on government allocations for its lending. It has a much larger degree of freedom through its access to all capital markets and its businesslike weighted voting structure. Its comparative freedom of action is enhanced by its ability to increase, by unilateral decision, its interest on loans, i.e. its own *earnings,* or to suspend or cancel a loan. But so far, the Bank has never yet cancelled a loan as a "sanction". It also never finances 100 p.c. of any project, like some commercial banks, which take much greater risks. It is, moreover, *not politicized* and managed surprisingly well not to be unduly influenced by "street politics", i.e. protest marches, open letters, press attacks, etc. Inside its complicated institutional structure, a large diversity of views are held, which means that there is much less of an "unité de doctrine" than, for instance, among the technocrats of the Commission of the European Communities, among the reverends of the World Council of Churches, or in UNCTAD with its obvious political and economic bias in favor of the Third World. This diversity of views reflects the diversity of local conditions encountered in development work, which is also partly responsible for the fact that in different departments, project performance and the global economy of a borrower country are not always judged according to the same set of standards. This diversity of views intensifies the necessary and, on the whole, healthy, "creative tension", but it can also turn into "destructive tension", or at best, into delay tactics hidden in institutional inertia, common to all larger organizations.

There is a certain "communication gap" between theorists and practitioners in the World Bank. The very prestigious, highly-qualified "think-tank" works out computerized economic development models of such sophistication that the "normal" project officer feels sometimes frustrated about their non-applicability to concrete, daily project work. There is no doubt that the more sophisticated an economic model is, the further away it is from reality, because its complication imposes the use of more and more "unknowns" or uncertainties, especially for the LDCs, where statistics are very rudimentary, not available or not comparable. But the development economic research work is nevertheless an excellent means of strengthening the Bank's already well-established intellectual prestige and thereby supporting its credibility as an investment agency.

Despite the "poverty criterion" in its lending policy, the Bank appears at least as "elitist" in its thinking and performance as the World Council of Churches[7], with the great difference that it started from economic, not ethical or social premises in its lending policy. But it acknowledges, like the World Council of Churches, that lending is never completely free from political constraints and that in the decision-making process, political elements weigh as much, if not sometimes more, than economic ones. Recognizing this as an in-

[7] See Bettina Hürni, Development work of the World Council of Churches, Geneva, 1974, pp. 219-231.

vestment agency is indeed very realistic. As a development institution, the Bank is pragmatic in its approach. It constantly tries to work out new methods for an exchange of relevant development experiences and for improving its evaluation procedures. The size and universal diversification of World Bank lending is quite unique. As the largest development institution it also has the largest spread of development lending – the lending program, again, being unique by its sheer size. And yet the banking professionals admit that pure finance (lending) becomes less relevant to development than non-quantifiable factors like management skills, efficient use and application of training, social, cultural and political habits, etc. Hence, and especially in some very "new style" ventures, such as population planning, education and urban renewal, the purely economic cost-benefit analysis declines in value as a tool for the measurability of success in lending. The Bank has the merit of promoting not only the theory of development economics which, since the "Big Push" (Rosenstein-Rodan) and the "pre-and-post-take-off stages" (Rostow) has remained very incomplete, but also recognizing that in practice, the non-quantifiable, not purely economic factors are of utmost importance to any financial operation. Whereas the two theories of Rosenstein-Rodan and Rostow assumed that this resource transfer was the key factor in development, the Bank, through its practical work, has shown, maybe paradoxically for its role as an investment agency, that lending is not the only key factor of success. Through this practical experience, the Bank itself has become a focal point, an exponent of development experiments in its role as a development institution. The results of its lending policy during its 30 years of experience suggest that the World Bank could be seen as a "multilateral investment model", whose positive aspects could influence other development agencies and whose negative aspects could possibly be avoided by others.

For its future work, it might be worthwhile to consider working out a more thorough *political and social cost-benefit analysis* supplementing, though certainly not replacing, the traditional, still useful *economic* cost-benefit analysis. To apply such a politico-social cost-benefit analysis is by no means an easy task, if one considers the already vague variables of the economic cost-benefit analysis in the LDCs becoming even more blurred through the addition of even vaguer political and social indicators. Yet this would perhaps lead to a new perspective in international lending policy. What would this mean for the Bank?

Firstly, that in order to maintain and expand its dual role of investment agency and development institution, it has to come to a very carefully built-up equilibrium between its two roles, which must be continuously adjusted to serve borrower and creditor interests alike. This could perhaps mean that the investment agency is "doomed" to be even more successful in order to generate increasing profits which could be used as lending by its development affiliate. Secondly the lending and the projects themselves will maybe tend to be on a smaller scale, facilitating supervision, correction and evaluation of their implementation as well as further decreasing risk. Normally, the World Bank did not finance projects under $ 5 mn because the impact of its lending should be clearly felt in the economy of the borrower country and also because smaller projects could usually be left to various other local or regional development agencies.

The new lending criteria might lead to a kind of "mosaic-set-projects", which could be split up in scope and time-periods of disbursements, where new elements would be added after the measurable success of experimental, small-scale ventures. Thirdly, target groups *inside* each project could be paralleled by the selection of *target countries* for "new style" projects, if it becomes evident that they would respond favorably to the application of a politico-social cost-benefit analysis. Of course, such a selection of target countries would again pose innumerable political problems. But the question remains open, if such selectivity can be avoided under the assumption of constant, not expanded, or even reduced lending operations and the considerable time-lag involved until socially-oriented projects become "profitable" in money value terms.

Fourthly, the World Bank has to see to it that its poverty criterion will not go to such extreme implementation as to "punish" the relatively more efficient groups of society or countries by refusing lending continuity to them in order to "divert" funds into more problematic, less efficient actions. One might also ask the question if there are no other methods, besides the "new style projects" for helping the very poor.

In general, it may be that the new perspective in international lending is to "think small", and to more thoroughly connect lending with political and social structures during project implementation. For the World Bank this can only be achieved if the same degree of objectivity in the allocation process prevails in the future, and – most important of all – if it overcomes, as in the past, the difficulties of striking a mutually acceptable balance between borrower and creditor interest in future lending.