Missionaries or Mercenaries: Is the World Bank the Private Investment Broker of the Global South?

By Sean Taylor

For decades, it has been documented that World Bank operations have advanced capitalist restructuring in the Global South, and that it is institutionally wedded to the language and ideology of neoliberalism: deregulation, privatisation, marketisation, and commercialisation. This institutional fixation with neoliberal ideology remains almost unchanged in the face of rapidly changing global economic and political circumstances.

The 2010s were set against the backdrop of the 2007/8 financial crisis, which posed a severe threat to neoliberalism. This decade also saw the coming-of-age of alternative economic models, in the form of the 'developmental state,' or 'retro-liberalism,' offered by the likes of China and Brazil. This has furthered the ideological challenge to neoliberalism. Yet, the Bank – rather than updating its economic doctrine for the 21st century – spent the 2010s transferring power into the hands of private capital, as it has always done. For example, its Maximising Finance for Development (MFD) scheme, one of its flagship policies of the decade, is presented as an innovative new way of financing sustainable development in the Global South. Though presented as part of the Bank's rebranding as a 'solutions Bank,' ostensibly void of ideology, in practice it operates according to the same neoliberal logic long promoted by the institution.

This tunnel vision is guiding the Bank's response to the Covid-19 pandemic, despite the potential for global economic transformation. That this commitment to neoliberal orthodoxy should remain steadfast, in the face of such challenges, suggests that the Bank enters the 2020s doing the same fundamental job it has done since the 1980s: transferring power to private capital.

The World Bank and Neoliberalism

Neoliberalism has not, of course, been the sole preserve of the World Bank. Since the 1970s the global economy has undertaken a process of capitalist restructuring, in which the fundamental tenets of a capitalist economy have been expanded: free markets, private property, exchange relations across society, and power shifts in favour of capital over labour (I understand neoliberalism to be *essentially* a project of capitalist restructuring, and that it should be understood in this context). This has been an almost universal phenomenon, yet the Bank has been crucial in advancing this programme in the Global South.

Since the late 1970s the Global South has become dependent on capital in the form of loans, contingent on neoliberal reforms such as tax cuts, lower regulations, lower financial costs, and privatisation of public services. Societies in the Global South have been profoundly reorganised as a result. I appreciate that this is not new territory for readers of roape.net, and it should be noted that much of ROAPE's coverage of the continent in the 1980s examined in detail the consequences for African societies and economies of World Bank and IMF structural adjustment programmes (see the archive for back issues of the review). There has been no lack of critique of this neoliberal model, but dependence on Western capital, and lack of credible alternative economic models (since 1989 and the collapse of the Berlin Wall) has meant near ideological hegemony in international development. Without challenge, it is of little surprise that the Bank continued to vigorously promote neoliberal reforms in the developing world.

The landscape has, however, changed rapidly since 2008. Alternative economic models are being offered in countries such as China and Brazil. Neoliberal logic assumes the state, its regulatory powers, and ownership of industries, are impediments to free market efficiency. By contrast actors such as China and Brazil see the state as an imperative actor for directing capital towards appropriate projects. The 'developmental state', as this model is often known, is an active participant in development, not a bureaucratic frustration whose frontiers are to be rolled back. This model is sometimes also referred to as 'retro-liberalism,' for its similarities with Western models of the 1950s. As well as offering a viable alternatives to neoliberalism, more Southern actors – China, Brazil, India, Venezuela and South Africa, for example – are acting as development lenders and investors, reducing dependency on Western capital, and thus the associated contingencies.

This threat to neoliberalism's ideological and geostrategic dominance rapidly accelerated following the global financial crash of 2007/8 – largely blamed on deregulation of global finance. The countries which had most embraced neoliberalism in the decades prior – such as the UK, where this blogpost is being written – entered a recession followed by a decade of austerity. By contrast, developing countries offering alternative, 'retro-liberal' models came out of the crash in a position of relative strength, having maintained high, if decelerated, growth rates.

Together this posed an existential crisis for neoliberalism. The model's failures had been exposed in the West where it wreaked economic havoc and was subsequently rebuked from all sides; both right-wing and left-wing politicians attacked what was commonly labelled neoliberal globalisation. In some parts of the Global South alternative models were providing high growth rates and appeared to offer a preferable route for smaller developing countries. The capital dependency upon which the West had relied on in order to strong-arm neoliberal reforms on to the Global South was being weakened.

Sham reforms

In terms of the game, it would have made sense at this point for the World Bank to have adapted to remain relevant. Even the IMF appeared to recognise its limitations, in admitting that elements of the neoliberal project "have not delivered as expected." Yet, the Bank's adaptations to this new world in which neoliberalism was losing the ideational battle have been merely cosmetic thus far.

As early as 2012 there was talk of a "new strategic identity," growing into a "solutions bank." Arguably, one implication of becoming a 'solutions bank' is an admission that the Bank was previously not focused on perfecting solutions, but ideology. Was the Bank tacitly suggesting it would be repositioning itself at a further distance from neoliberalism?

If so, the Bank's rhetoric did not match its actions. The flagship announcement of the 2010s, the MFD scheme, ultimately follows the same logic as its previous work in the Global South. MFD is described by the Bank as an opportunity to bridge the US$2.6 trillion per year gap between development aid and what is necessary to end global poverty. The Bank sees developing countries as a US$12 trillion 'market opportunity,' into which it seeks to attract private capital investment using subsidies and guarantees, and legal, policy, and regulatory changes. This sets up securitisation markets in the financial sector, and proliferates the use of Public-Private Partnerships (PPP).

In practice, this equates to the deregulation of domestic finance sectors, in order to incorporate global financial institutions and shadow banking institutions in the economy. Foreign investment is enticed through further deregulation of labour, land, environmental, and social laws. In other words, a wholesale reconfiguration of the economy in order to access private debt.

For example, in Indonesia where the MFD scheme is being used for geothermal exploration, the Bank seeks to use US$150m from the government, US$175m in concessional climate finance, and US$325m in Bank loans to unlock US$4bn in private capital investment to put towards geothermal exploration. The Bank itself provides "advice on how to structure the facility to align with the needs of the private sector." Rather than Bank or state-led investment adapting to the needs of Indonesia's energy sector, the Bank explicitly states that Indonesia must make adaptations to the needs of private sector investors. There are plenty of similar instances in Kenya and Nepal where MFD is underway, and the Bank states that "MFD is about prioritizing private sector solutions and optimizing the use of scarce public resources."

Development is reduced, then, to being dependent on neoliberal reforms which expand the private sector and weaken the power of the state over its domestic economy. This is 'development' as a power-grab by global finance. The Bank's reinvention of itself amounts to little more than becoming a private investment broker in developing economies.

Covid and the Bank

Today the world faces a fresh challenge to the neoliberal model, with the Covid-19 pandemic graphically illuminating its deficiencies. In particular, the reduction in state-planning capacity left countries ill-equipped for the logistical challenges the pandemic posed, with the so-called efficiencies of the market found wanting.

This has been particularly exposed in the distinction between the failure of the neoliberal West's test, trace and isolate systems – which were often contracted out to the private sector – compared to those of Asian countries. Just-in-time supply chains and large supranational free trade areas and political bodies begin to look outdated in a world where borders are being closed and the nation-state confirmed as a real political and sovereign entity.

Public-private-partnerships have been a hallmark of neoliberalism, often supplying public services. These have been long-criticised, but the collapse in demand for some of these services during periods of lockdown has left some states with huge bills being paid to private companies just so they can maintain profit margins. The World Bank's failure to produce data on exactly how much is being spent only serves to make it look like a shady racketeering scheme. Profit margins remain too sacred to be touched, whilst states will no doubt be forced to make cuts to public services in order to pay for them.

At the same time as the virus have ripped through communities and societies demand has increased for healthcare. In much of the developing world, public healthcare systems are underfunded and of poor quality, and much provision is private – again this is the legacy of structural adjustment programmes and reforms from the 1980s. The role of global finance, and its need for returns on investment, in funding private healthcare means that profit is often put before a universal quality of care. The result is grotesque health inequalities. Rather than a 'great leveller,' the pandemic shows that the greater role of private companies and global finance in healthcare systems results in higher death rates among those in a worse socioeconomic position.

Despite these fundamental flaws, inherent to the neoliberal model, the Bank has refused to change course. Of the World Bank's initial US$14bn disbursement to mitigate the effects of the pandemic, US$8bn (57%) was channelled through the International Finance Corporation (IFC), the private sector arm of the Bank, representing an increase on its historic average of 17%. Of the IFC funding, 68% went to financial institutions rather than 'real sector' businesses, such as agribusiness, healthcare, and tourism; 50% of funding to these sectors went to companies that are, or are owned by, international conglomerates. Therefore, the Bank's Covid response was primarily an exercise in rescuing global finance.

Funding allocated by the IFC to the 'real sector' continues to support this notion. To take one example, the IFC and the International Development Association (another arm of the WB) are raising US$4m in blended concessional finance (private investment) to support a project by Ciel Healthcare, Uganda's largest private healthcare provider. Given the health inequalities inherent to the financialisation of health systems, this is not an optimum project for protecting Ugandans, which would be to improve universal public healthcare systems, rather than brokering private investment.

This is part of a wider trend in the developing world. Spending on public health briefly increased when the pandemic first surged, but the focus quickly returned to private provision, with the IFC announcing a US$4bn Public Health Platform with the explicit purpose of "support[ing] the private sector's ability and capacity to deliver healthcare products and services."

Taking other examples, an emergency Bank loan to Ecuador in May, the Bank demonstrates a commitment to the wider principles of neoliberal economics to stimulate economic growth. The loan was conditional on removing certain sectoral minimum wages and increasing exemptions for taxes on financial transactions. A loan to Nigeria's energy sector in June last year was completed with the explicit purpose of de-risking investment for the private sector. In these instances, the Bank is acting to hand power to private capital, effectively making the success of Ecuador and Nigeria's domestic economies dependent on the rampant desire for profits motivating global financial institutions.

These are not isolated examples. The Bank declared in one blogpost last year that its Covid-19 response is part of their "integrated approach to help mobilize private sector financing." It goes on to discuss the central role PPPs will play in their future economic plans, despite the way they have locked in profits for private investors.

This is the future offered by the Bank. It continues to advocate for neoliberal reforms in the Global

South even as this model faces, what would appear to be, an existential challenge. There remains the possibility in the long run that the Bank could fade into irrelevance as other international players, primarily China, reshape the global economy. But what is certain is that the Bank has entered the Covid-19 world with the same mission as it had in the 1980s: advance capitalist restructuring and push power into the hands of private capital.

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