Implementing the World Bank Group's Maximising Finance for Development:

Reinforcing Corporate Capture of the Global South

The International Monetary Fund (IMF) and what came to be later known as the World Bank Group (WBG) were established in the 1944 Bretton Woods Conference held at the United States (US). The World Bank was founded as the International Bank for Reconstruction and Development (IBRD) for post-World War II loans. It later shifted towards broader lending for infrastructure and other "development" purposes. In 1960 the International Development Association (IDA) was founded to facilitate loans especially to the poorest countries. IBRD and IDA together comprise the World Bank.

The World Bank Group, as it is known today, is made up of other affiliated institutions all with a focus on assisting private investment towards developing countries. The International Finance Corporation (IFC), focused on lending and supporting private corporations, was founded in 1956.

Ten years later, the International Centre for Settlement of Investment Disputes (ICSID) emerged as an institution to decide on cases between investors and governments. The Multilateral Investment Guarantee Agency (MIGA) was then founded in 1988 to provide risk insurance and other guarantees to private investors in developing countries, to protect capital in cases such as expropriation by the state.[1]

The US and the IMF-WB

Since their founding, the United States (US) has played a huge role in the direction of the IMF-WB. The World Bank describes the US as a "leading force" in its establishment.[2] In terms of location, both the headquarters of the IMF-WB are located in Washington D.C. Among the 189 countries of the IMF, the US holds the highest shares in the Fund's unit of account (or "special drawing rights") at 17.46%. This correlates to voting power; one vote from the US has the weight of 1/6 of the total. [3]

According to the World Bank, the US has "a unique role in influencing and shaping development priorities" as the sole WB shareholder with veto powers in decisions of Bank structure.[4] All WBG presidents have been US-nominated US citizens, including today's Jim Yong Kim. Similar to the IMF, the US holds the highest shares in all the WBG institutions ranging from 14.97% in the IBRD to 22.45% in the IFC.

Before a country's government becomes a member of the World Bank, it has to be a member of the IMF.[5] Southern governments which became members of the IMF-WB arguably put peoples in a bind, with lower-income governments accepting US-led international monetary norms under the IMF before they could access private sector-driven "development financing" under the WBG.

The Annual Meetings of the IMF-WB is another aspect of the tight links between the two institutions. The meetings are usually held in Washington DC for two years, and in another host country for the next year. The 2018 Annual Meetings will be held in Bali, Indonesia. The Joko Widodo government had reportedly allotted more than USD 53 million for the events, with tight and even militaristic security measures.

"MFD" approach: Concoctions for corporations

As elaborated in our prior paper, The World Bank Group's Corporatization of Development, the WBG has been promoting its current approach to development finance in the past years. In the last few Spring and Annual Meetings there had been talk on the role of the WBG as a "broker" between investors and developing countries.[6] This has been more clearly articulated recently as "Maximising Finance for Development," or the MFD approach.[7]

A coordinated WB for comprehensive corporate capture?

The World Bank notes that the MFD approach is not altogether new as private sector support has been among the fundamental priorities of its institutions, especially for instance the IFC and MIGA. The way that the MFD is different, says the WB, is in how it makes private sector support "more systematic, making this increasingly the norm for how the WBG does business." The MFD complements already existing IFC imperatives to "create markets" in developing countries. It also ties up with the existing

Box 1. The IMF-WB in the neoliberal era

1970s-1980s – Structural adjustment
This is the IMF-WB focus during the decade of oil shocks, high developing country debt and the Cold War. "Adjusting" economic policies were required for loans, with "reforms" towards export-orientation, deregulation and the privatisation of state enterprises. IMF-WB structural adjustment drew ire of movements for forwarding the US economic agenda while sinking economies further into debt, reducing wages and increasing unemployment.

1990s-2000s – "Poverty reduction"
Adjustment for "poverty reduction" continued, with privatisation and "private sector" promotion. The WB's Poverty Reduction Strategy Papers (PRSP) and the IMF Poverty Reduction and Growth Facility (PRGF) were established. PRSPs were poverty analysis documents prepared by countries using supposedly participative means, which were used by the IMF as basis for PRGF policy conditions and required for countries to access debt relief under the WB's Heavily Indebted Poor Country Initiative. Conditionalities continued to belie IMF-WB claims to "country ownership," while country-level participation was criticised as "shallow," "staged by governments" and ignoring civil society demands.

2010s-present – Even more systematic private sector-led "development"
The WB increased support for private sector roles in development. It has pushed public-private partnerships especially in infrastructure, considered by critics as "privatisation by other means." It argued that big private sector could fill in the "financing gap" in developing country infrastructure. In 2013, the WB released a strategy document with claims towards tighter coordination among the four WB Group institutions (minus the ICSID). These culminated in the MFD approach – featuring a more systematic promotion of private sector financing and roles in development agenda, with public financing as a last resort. This poses even more risks to the people's right to participate in their development.

Sources: IMF, IDA. 1999. Poverty reduction strategy papers - operational issues / IMF. 2002. "IMF Executive Board reviews PRGF." / IMF. 2018. "IMF support for low-income countries."/ Lazarus, Joel. 2008. "Participation in PRSPs: reviewing the past, assessing the present and predicting the future. Third World Quarterly. / Peet, Richard. 2003. Unholy Trinity: the IMF, WB and WTO. / World Bank Group. 2013. "A stronger, connected, solutions World Bank Group."

IDA-IFC-MIGA efforts to use IDA grants and loans to create conditions for international capital.[8]

Described more simply, the MFD systematises various means to support big private capital under one coordinated banner. Such "support" includes financing, "policy reforms" and "technical assistance, "guarantees for possible political risks, as well as public-private partnerships (PPPs) – all to loosen up constraints for investor entry.

In talking about MFD, the WBG evokes the Hamburg Principles to justify its trajectory. "Hamburg" is a G20 policy document that reinforces the dominant view on how multilateral banks "contribute" to sustainable development. Namely, this is through "crowding-in" private investment by "supporting reforms and reducing risks, and hence the cost, of private capital."[9]

The MFD in three Southern countries

Despite concerns on the further consolidation of corporate power within development, Maximising Finance for Development is being piloted in nine countries. Five of these are from Asia (Indonesia, Vietnam, Nepal, Iraq, Jordan) and four from Africa (Kenya, Cameroon, Cote d'Ivoire, Egypt).

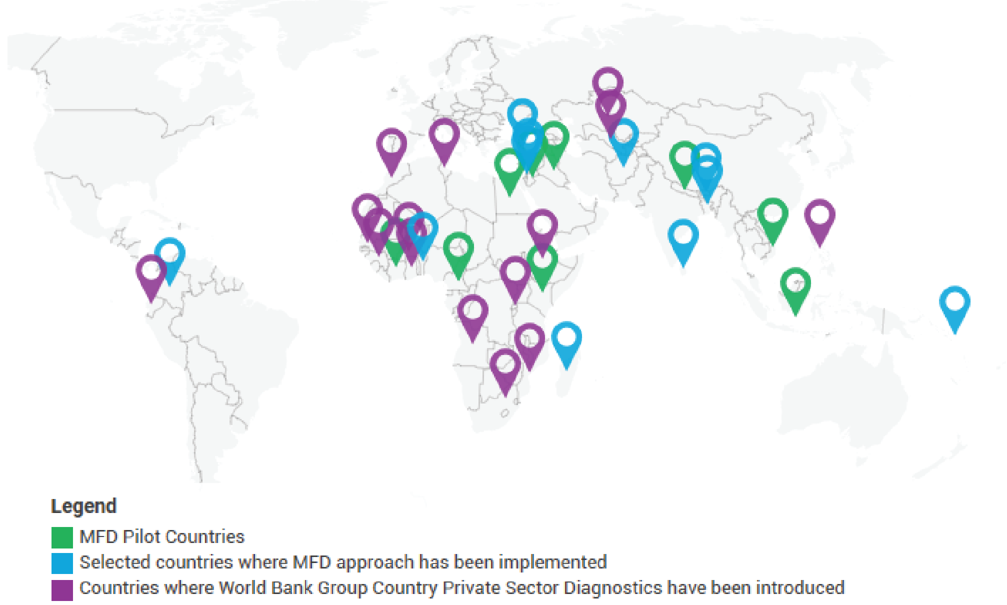
The WB also notes the supposed success of the MFD approach in Colombia, Madagascar, Afghanistan, Turkey, the Solomon Islands and West Africa (Figure 1). The WB also sees Peru as an example for the prospects of the MFD approach. The WB has been also propping up their prior work in these countries as examples for what MFD could look like.

Indonesia: More power to the "private sector"

Over a 60-year period of "partnership" between the Indonesian government and the World Bank, the latter's work has been focused on the economic sectors most favourable for foreign investment: mining, electricity, gas, water supply, transport, storage and communication. These sectors combined account for 36 per cent of total foreign investments in Indonesia.[10]

"Sustainable energy" is among the priorities in the 2016-

Figure 1. Countries for the implementation of the World Bank's MFD approach



Source: The World Bank Group. http://www.worldbank.org/en/about/partners/maximizing-finance-for-development#2

2020 Country Partnership Framework between the WB and the government of Indonesia.[11] Within the MFD approach for Indonesia, there remains a focus on the energy sector. A total of USD 650 million of public funds is reported for use in exploring geothermal power – USD 150 of which from government, USD 175 million from concessional climate finance and USD 325 million from the World Bank loan. Through the loan, the Indonesian government is to use the funds to "unlock private sector investments," in this case expected to be worth USD 4 billion.[12]

The more comprehensive approach to enable the private sector agenda is seen in the roles taken on by the IBRD and the IFC. The latter, the private sector arm of the WBG tasked to create markets, is also working to provide the government "critical advice" towards using the credit "to align with the needs of the private sector" (emphasis added). The premise is that they will be allowed to take over financing and therefore profiting from the supposed geothermal plants after "the high-risk exploration phase."

Despite its shift since 2013 for "sustainable energy" within the same private sector-led model,[13] the World Bank has continued to fund big coal-powered plants in Indonesia. This includes the USD 4 billion-worth Central Java Coal Power Plant in Batang, supported with a USD 33.9 billion guarantee from the IFC-created Indonesia Infrastructure Guarantee Fund (IIGF)[14] and set to begin operations in 2020.[15] IIGF projects had been mandated to promote PPPs.[16]

The Batang coal project was awarded to Bhimasena Power Indonesia, made up of Indonesia's second largest coal company and two Japanese corporations.[17] WBG support has been criticised due to issues of corruption, lack of transparency and involvement of affected sectors, environmental risks and large-scale land-grabbing of communities' lands despite their staunch opposition.[18]

PPPs in Kenya under MFD

Under the recent World Bank Country Partnership Strategy 2014-2018 for Kenya, which was extended until 2020,[19] the WB cited the need to accelerate the relatively low growth rates of the Kenyan economy. It points the need for investments to supposedly "contribute to expansion of the private sector, create jobs and improve equity" such as in petroleum and natural resources.[20]

Within the MFD, the World Bank boasts of its various roles in Kenyan infrastructure PPPs mainly through the IDA, IFC and MIGA. The WB notes that IDA loaned USD 40 million to the Kenyan government which "helped establish" a 2013 PPP law and another USD 50 million to support possible PPP projects.[21]

This is in tandem with World Bank "technical assistance" for the creation of capital markets, for long-term infrastructure investors. The IFC and MIGA are negotiating with bidders for the first highway PPP in Kenya: the USD 550 million Nairobi-Nakuru-Mau Summit Highway project. The case of the PPP law and other forms of "sup-

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port" show the use of WB funding to intervene in domestic policy trajectories to further open the gates for the private sector.

In the PPP set-up for the Nairobi-Nakuru-Mau Summit Highway, the "private sector partner" designs, builds, finances, maintains and operates the road.[22] It will thereby receive "user fees" such as toll fees. The WB also supports this "user-payer" approach, which "can be used to service the debt raised by the private sector to undertake the project."[23] This case concretises the UN Conference on Trade and Development (UNCTAD) critique of the drive for "bankable" projects, given that private and public interests are not necessarily in correspondence and given compromises in policy space. [24] In this case, the whole infrastructure project will be surrendered to the would-be contractor, treating the social service as a commodity and not as a right.

Peru: Extracting profits

The World Bank has been active in the country during the 1990s Structural Adjustment Programs that launched deregulation and privatisation, even removing ownership restrictions on land.[25] Many critics have pointed out the IFC's USD 26 million loan to Minera Yanacocha S.R.L, a corporation more than 50% owned by the US' Newpoint Mining Corporation. These were for the Yanacocha Mine, with succeeding loans for its expansion. Within the last decade WBG presence in Peru included IFC-advised "reforms" that started in 2009, reducing workers' benefits while facilitating greater entry of foreign investment.

The 2015 Annual Meetings marked Peru as the first Latin American venue in more than four decades. Now Peru is also said to be in the pipeline of countries for the implementation of the MFD approach. Like in other Southern economies, the WB has intervened through encouraging legal and policy "reforms" to accommodate more PPPs. There had been two PPP laws in 2015 and 2016, supported by the IBRD loan and IFC support. The WB declares that by 2018, the Peruvian framework for PPP projects "was mostly complete"[26] – strengthening more opportunities for big domestic and international corporations for investment.

Development beyond the "financing gap" narrative

The rhetoric around the "Maximising Finance for Development" approach frames current development issues in the South as almost exclusively a financing problem. Various considerations such as the historical outcomes of the neoliberal decades, and the need for national development strategies are shoved aside as the utmost priority of attracting private capital is given primacy.

The Hamburg Principles, which the World Bank Group cites to justify its MFD approach, were crafted in 2017. Just a year later, the orthodox view that big private sector investments necessarily contribute to "leaving no one behind" is getting increasingly questionable.

Recent data from multilateral sources reveal widening world inequalities linked to the ever bigger private sector. According to a 2018 paper published by the IMF, since the 1980s – when neoliberal policies began their heyday –and even more so since 2008, the share of revenues that went to corporations' profits had increased throughout time while the share going to workers have declined.[27]

The strong stress on "bankable" – profitable – infrastructure projects, which could be found in the MFD approach, is also becoming more difficult to justify. The UNCTAD cites "differences in private and social returns" and the loss of policy space for a national development strategy as some problematic aspects of the current "financing gap narrative." [28]

The UNCTAD posits the need to begin at an "overall development strategy [that] should determine infrastructure planning...[which is] a reversal of the sequencing suggested by the financing gap approach." The UNCTAD argues that private and social priorities are not necessarily the same and thus the need for public actors.

Public-private partnerships are also included as one possible mode of intervention through the World Bank's MFD approach, aside from WB large-scale promotion of PPPs to finance development projects in Southern countries. [29] But civil society organisations (CSOs) have already pointed to the stark difference between private interests of corporations and the public interest in PPPs, with the poor and marginalised bearing the high costs while the private firms benefit. [30]

CSOs raise transparency issues in contracts, as well as hidden financial and social costs of PPPs – from greater burdens on public funds to adverse impacts of infrastructure PPPs on communities.[31 32] In this light, CSOs and trade unions boycotted a World Bank consultation on PPPs earlier in 2017[33] and opposed WB promotion of this arrangement. Against the trend towards PPPs, a counter-trend of reversing privatisation and taking back social services is said to be emerging, such as in the case of water services in Ghana, Argentina, Tanzania, Malaysia and Bolivia.[34]

Within country membership at the IMF-WB, prospects of development felt at the grassroots are slim; the blanket promotion of what is known today as the private sector is built into the core principles of each institution. For instance, the IBRD Articles of Agreement includes "promot[ing] private foreign investment by means of guarantees or participations in loans and other investments made by private investors."[35] Meanwhile, the IFC Articles of Agreement cites, as one of its purposes, helping "to create conditions conducive to the flow of private capital."[36] On these grounds, membership of Southern countries in the IMF-World Bank should be reviewed and re-examined given the impacts on people's rights of these built-in economic and institutional assumptions.

To take this further, there is a need to assert – especially in Southern countries – that national development strategies should be owned and led by the people, especially the grassroots, and their organisations as representatives of societal sectors whose rights to land, social services and to development are at stake. The active participation of these organisations is a key premise to shape development policies that benefit the people, instead of being dominated by the neoliberal IMF-WB prescriptions, the profit-motive of international capital, and elites in government.[37] #

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