The World Bank reinvents itself – and puts poverty reduction at risk

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The World Bank's relationship with US president Donald Trump has raised concerns about its political neutrality in recent weeks, but a larger and potentially much more important shift in how the Bank operates is underway. The World Bank is reinventing itself, from a lender for major development projects, to a broker for private sector investment.

In April 2017, World Bank Group President Jim Yong Kim outlined his vision in a speech given at the London School of Economics. He argued that development finance needs to fundamentally change in speed and scale, growing from billions of dollars in development aid to trillions in investment.

Kim said that there are significant financial resources readily available, literally trillions of dollars "sitting on the side-lines" on capital markets, generating little in the way of returns, particularly compared to what they could make if invested in developing countries. Private investors' lack of knowledge about these countries, and their tendency to remain generally risk-averse, mean that these funds remain largely untapped.

New agenda. EPA/MICHAEL REYNOLDS

New role

In Kim's view, the World Bank should therefore be a broker between the private sector and developing countries. Its future top priority should not be to lend money, but to "systematically de-risk" development projects and entire developing countries. To do that, it will promote policies that make countries and projects attractive for private investment.

Kim hopes that this will enable private sector financing, while at the same time benefiting poor countries and their populations. In his view, the bank would mediate between the interests of a global market system, developing country governments, and people in poverty.

Kim provides several examples of this catalytic role: the bank's International Finance Corporation (IFC) enabled private sector involvement in building and managing Jordan's Queen Alia International Airport; the IFC and the bank's investment guarantee agency MIGA helped privatise Turkey's energy sector; and the IFC's new risk mitigation program covers private sector investment risk with public money. As a broker, the World Bank thus provides a mixture of services that range from investment and insurance to business advice and policy lobbying.

Magic money tree? Alex Proimos/Flickr, CC BY-NC

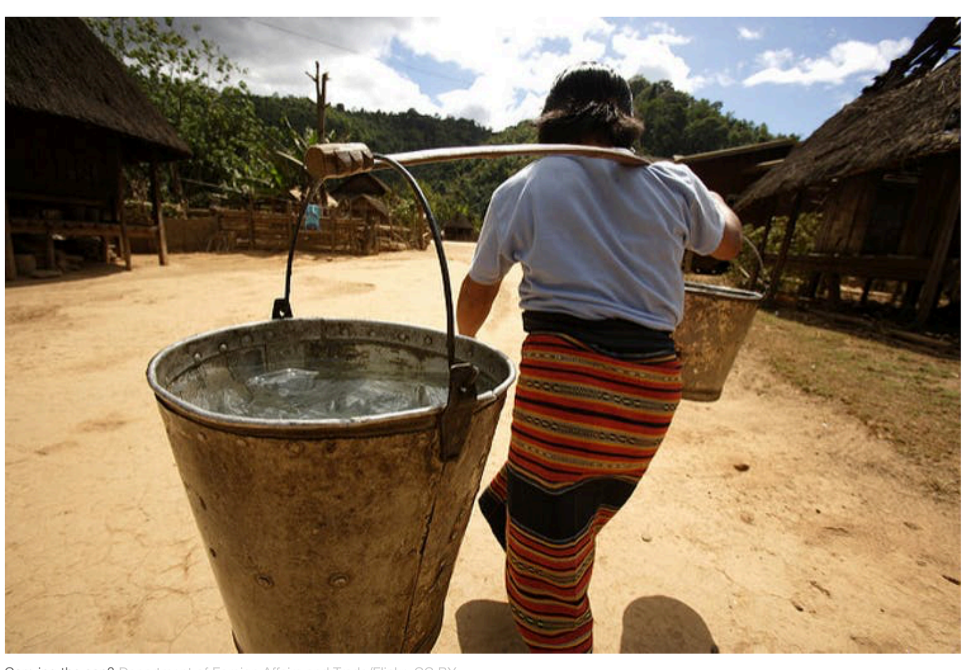
Power shifts

Kim's vision would shift power away from the traditional lending arms of World Bank operations, the International Bank for Reconstruction and Development (IBRD) and International Development Association (IDA), and towards the private sector arm of the bank, the IFC.

The IBRD, formed in 1948, provides loans and advice to middle-income and low-income countries which are deemed creditworthy. These loans are profitable, even if the IBRD does not work to maximise its income but aims instead to foster global socioeconomic development. The IBRD is largely financed via capital contributions it receives from its 188 member states as well as via the issuance of World Bank bonds. In 2016 it disbursed US$22.5 billion (almost half of World Bank Group disbursements overall).

The IDA was created in 1960 and provides low-interest loans and grants to the world's poorest countries. It is funded by so-called "replenishments", or donor commitments, generally every three years. Broadly speaking, it does not make a profit, but works mostly towards the goals of poverty alleviation and economic growth. In 2016 it disbursed US$13.2 billion (slightly over a quarter of group disbursements).

The IFC, created in 1956, aims to foster private sector involvement in development projects around the globe. In 2016 its disbursements amounted to US$10.0 billion (one-fifth of group disbursements). Its work has been severely criticised by activists, academics and civil society organisations. They argue for example that the IFC has exacerbated inequality in health and famously, concerns persist about the fallout from its attempts at water privatisation.



Carrying the can? Department of Foreign Affairs and Trade/Flickr, CC BY

The rise of private finance

The role of investment broker makes sense from the World Bank's own perspective, if we take into account the larger political economy context of development. Low and middle-income countries have become less reliant on World Bank lending, given increasingly attractive alternative sources of financing; the current US and UK administrations favour trade and business over development aid, and private finance has in past decades rapidly outgrown other parts of economic activity.

The World Bank therefore risks becoming irrelevant unless it reacts to these trends. Moreover, since its founding articles of agreement define the bank as an institution that facilitates private sector investment, its role as a finance broker does correspond to its core mandate.

However, making the private sector its first port of call may fit less well with the goal of making development work for the world's poorest people. Two major concerns are worth highlighting. First, why exactly should assessment of the value and effectiveness of development activities primarily be made with reference to their profitability for the private sector? As French economist Thomas Piketty has shown, when left to its own devices the rising power of private capital markets is a force for, rather than against, income and wealth inequality. Surely, the most important question to ask is thus whether the private sector does enough for people living in poverty or in highly unequal societies, rather than *vice versa*.

Second, what makes this renewed turn towards private sector solutions so much more promising today than during previous decades when Kim himself had vigorously criticised them? In his LSE speech, he remarked that the bank has learned from past mistakes. Yet, "de-risking" entire countries for private sector investors is likely to include policies such as strict inflation controls, large-scale privatisations, rapid trade liberalisation and strong government cutbacks on social spending. These have in the past made World Bank lending activities notoriously destructive for developing countries.

In Bolivia, for example, structural adjustment policies imposed as part of World Bank lending conditions from 1985, led not only to a rise in unemployment and a reduction in public revenues, but eventually to countrywide riots over water privatisation and resulting price hikes.

Even if we leave aside concerns over the financial transparency of the corporations which will be involved, the bank's changing role reflects a worrying shift in how the development sector operates more widely. There may well be vast amounts of capital waiting in the wings, but putting development work in the service of private capital creates a new risk altogether – that of people in poverty being pushed out of sight.

Financial markets | Investment | Debt | Capitalism | World Bank | Private sector | Development aid | Jim Yong Kim | financing

Auteurs

Felix Stein
Research affiliate, University of Cambridge

Devi Sridhar
Professor of Global Public Health, University of Edinburgh

Déclaration d'intérêts

Felix Stein works as a Postdoctoral Researcher at the University of Edinburgh. See http://globalhealthgovernance.org/team-1/ His work is funded by the Wellcome Trust. Grant number 106635/Z/14/Z

Devi Sridhar directs the Global Health Governance Programme at the University of Edinburgh. Part of her work is funded by the Wellcome Trust. Grant number 106635/Z/14/Z.

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