WHAT THE WORLD BANK'S SHIFT FROM PUBLIC TO PRIVATE FUNDING MEANS FOR DEVELOPMENT

By ***Steven Friedman***

The author is Professor of Political Studies at the University of Johannesburg

Steven Friedman

Something new is afoot at the World Bank. But there's no reason for developing countries to be hopeful that development funding is about to get a much needed fillip after decades of dismal performance and inappropriate policy prescriptions. It's just that Santa Claus will only give gifts to the investor kids from now on. As for those who were getting gifts all these years . . . well, it may be time to create another Santa.

> **Making economies work for more people is a political task, not a technical exercise**

Making economies work for more people is a political task, not a technical exercise. The World Bank has just conceded this – without meaning to do so.

The bank has taken a new direction which, its critics say, means that it has given up on making economies work for the poor.

In theory, they are right. In practice, the bank may be recognising that the politics which shape it made it impossible for it to achieve the development which it promised for the poor.

The change was outlined in an April speech by bank President Jim Yong Kim, and is discussed in a recent document spelling out the bank's vision for 2030. It's meant to change it from a lender for development into a broker which will unlock "trillions" of dollars in private investment. It will seek to help countries by advising them on the policy and governance changes they need to make to attract the money. So the Bank will become a conduit for private investment, not public development funding.

The Bank does not say it is giving up on public funding. But its document declares that: "Only where market solutions are not possible ... would official and public resources be applied."

So public development funding will be used only where it cannot attract private investors to poorer countries. Since Kim insists it can unlock "trillions" of dollars which can transform developing countries, it seems unlikely to reach for public funding in a hurry. So it seeks now to act as a broker for private investment, not public development.

INCREASED POVERTY AND CONFLICT

The bank's critics point out that private funding wants returns, not less poverty. They warn that relying on it for development will increase poverty and conflict. Ironically, they are repeating criticism that Kim made when he was a development practitioner – that development was being shaped by the agendas of private funders.

In principle, the shift does abdicate the World Bank's mandate. It was a product of the 1944 Bretton Woods conference where its architects, John Maynard Keynes, Henry Morgenthau and Harry Dexter White, all saw an important public sector role in correcting some of the market's impact. The bank was an instrument of that public role - one of its functions was "counter cyclical" public funding to stimulate economic activity when dips in the business cycle depressed markets.

The bank's shift abandons this role and places the fate of the global poor largely in the hands of private wealth. It seeks not to find ways in which private money can serve public needs but how public needs can shift to meet the demands of private money.

It could be seen as the final abandonment of wealthy countries' obligation to the rest of the planet, US President Donald Trump's "America First" translated into a development strategy.

But in practice, it's debatable whether the shift will change much in the life of the world's poor.

A ROLE TO MARKETS

The role the World Bank's architects had in mind may describe what it did at the beginning when it funded the revival of war-torn Europe. But, when it began to fund development in poor countries, it gave a role to markets well beyond anything its inventors would have endorsed.

In Africa, it demanded Structural Adjustment Programmes which cut back sharply on public welfare and, in the view of critics (such as Kim in his previous incarnation), caused great suffering. Its determination to ensure that funds went only to the most desperate (cutting the funding burden) once prompted it to recommend, in Tunisia, a biscuit so unpleasant that only the very hungry would eat it. The World Bank's private finance arm, the International Finance Corporation (IFC), whose role will be strengthened by the shift, was fingered as the chief cause of that suffering.

“

In Africa, it demanded Structural Adjustment Programmes which cut back sharply on public welfare and, in the view of critics (such as Kim in his previous incarnation), caused great suffering

So the bank behaved in much the same way and for much the same reasons as its critics fear it will behave now.

It and its supporters insist it made a positive impact: they cite data showing a marked drop in global poverty and say it contributed to this. But the figures are hotly debated. Even if they are accurate, there is no clear evidence that the bank helped make them happen. Nor has it created a world in which many more people find a settled role in the economy.

So the bank's new role may, therefore, be simply its old one, but now with an accurate product description.

This may overstate the case: the bank has, at times, made a serious attempt to listen to critics and to become a conduit of development, not pain. But it was never able to adjust as an organisation – it would often endorse criticisms in theory but not translate them into practice. And so it did not become an effective development engine. The bank's current shift has probably been prompted by its declining role as a development funder, as poorer countries discover other sources of finance.

MORE FINANCE, BUT MORE EXPENSIVE

The bank failed to do what it promised because it reduced development, a political task, to a technical exercise. It did this because its own political constraints ruled out an effective role.

Effective campaigns against poverty and inequality happen for one of two reasons. Either elites decide it's in their interests to fight them or, in democracies, poorer citizens use their vote and their rights to achieve change.

Neither condition applied to the World Bank. Its decisions are not made democratically because votes are allocated in proportion to capital invested, not the number of people a government represents. America always appoints the bank president because it provides most of the capital and has most of the votes.

The Bretton Woods trio did not see that the New Deal, the US programme in response to the Great Depression in 1933, had worked partly because it had a solid base of democratic support and that democracy was essential to the development they sought. In the absence of democracy, the elites have decided what the bank should do. Since the focus shifted from Europe to the rest of the world, they have shown little interest in changing a state of affairs from which they benefit.

It's this political context which has caught up with the bank, first reducing its role and then forcing it to give up on public funding to fight poverty. Ironically, the critics who insisted that it take politics seriously have been vindicated in a way they did not intend or expect. Challenged to recognise politics' role in development, it has done so by concluding that the politics which govern how it works make an effective role in development impossible.

NOTE
This article first appeared in The Conversation, 9 July 2017.
www. theconversation.com NA