Market Fundamentalism and the World Bank Group:

from Structural Adjustment Programmes to Maximizing Finance for Development and Beyond

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Contents

Acronyms

Bank	World Bank Group
CPF	Country Policy Framework
CPSD	Country Private Sector Diagnostic
DPF	Development Policy Financing
DPL	Development Policy Loan
G20	Group of 20
HIPC	Highly Indebted Poor Countries
IBRD	International Bank for Reconstruction and Development
ICSID	International Centre for the Settlement of Investment Disputes
IDA	International Development Association
IFC	International Finance Corporation
IMF	International Monetary Fund
InfraSAP	Infrastructure Sector Assessment Program
J-CAP	Joint Capital Market Programme
MDB	Multilateral Development Bank
MFD	Maximizing Finance for Development
MIGA	Multilateral Investment Guarantee Agency
PPP	Public-private partnership
PRSP	Poverty Reduction Strategy Papers
PSW	Private Sector Window
SAP	Structural Adjustment Programme
SDG	Sustainable Development Goals
UN	United Nations

Foreword

The Maximizing Finance for Development approach of the World Bank recasts the role of the institution. Project design, advice on policy reforms and incentives are to be arrayed toward attracting private investment. This threatens to leave aside catalytic public investments. Further, it neglects policies that create an enabling environment for inclusive economic transformation, productive private investment and activity, and sustainable development. Public investment and sustainable transformation are essential to overcome Covid-19 while addressing the underlying global vulnerabilities to health, financial and economic contagion.

The elements of Maximizing Finance for Development are not new. For decades, the Bank has promoted deregulation, financialization, elimination of worker's rights, and privatization as the keys to development. It is a new name underpinned by the Bank's longstanding market fundamentalism, which places faith in the trickle-down of private profit. This has failed repeatedly, as evidenced by rising inequality, declining labour share of income and the breakdown of the social contract. Covid-19 has brutally demonstrated the ramifications of under-investment in quality public services including health.

The Sustainable Development Goals framed a necessary and universal agenda for 2030. This could have been a decisive moment for the Bank to change course, finally repairing the toxic legacy of Structural Adjustment Programmes. Instead, the World Bank, IMF and multilateral development banks stridently promoted a narrative in which the Sustainable Development Goals could only be financed by rolling out the red carpet for private investors.

At the opening of the age of structural adjustment, we were told that there was no alternative. There are alternatives. Progressive and corporate taxation to raise resources for transformative public investment. Industrial policy to drive low-carbon innovation, infrastructure and economic diversification. Coordinated wage hikes and living minimum wages to raise demand and growth. Prudent regulation to stop financialization and speculation that detract from the real economy. Strengthened collective bargaining, labour market institutions and a labour protection floor to foster full, quality employment.

The World Bank was founded to lead a post-war reconstruction. As we prepare to recover from the economic and health crises caused by Covid-19, we need to reform the World Bank and the multilateral system to achieve a sustainable and just reconstruction.

Sharan Burrow
General Secretary, International Trade Union Confederation

Introduction

Market fundamentalism has dominated thinking within the World Bank Group since the era of Structural Adjustment Programmes that started in the 1980s and continues to be the preferred solution to this day. World Bank Group advice and programmes maintain a focus on how to best attract private, mostly foreign investment, maintaining a view that unfettered markets hold the key to development.

In response to the Agenda 2030 adopted by the United Nations, the World Bank Group launched the "Maximizing Finance for Development" initiative. This initiative does not represent a significant ideological departure from how the institution previously operated but rather attempts to reorient operations around financial markets.

The shift towards market fundamentalism took place at the World Bank Group, along with the International Monetary Fund, during the administration of Ronald Reagan, which made a coordinated push to bring supply-side economics to the rest of the world.

Structural adjustment programmes had a disastrous impact, stalling growth and development indicators. As poverty worsened and debt burdens in developing countries exploded, outside pressure led to the scaling-back of these programmes in the early 2000s but not an abandonment of a trickle-down approach.

In recent years the World Bank Group has focused on promoting an expansion of financial markets as the key to development. Maximizing Finance for Development intensifies that approach and repackages the longstanding promotion of liberalization, deregulation, and other policies to attract foreign direct investment.

The rise and fall of the Washington Consensus

The World Bank was created at the twilight of World War II, along with the International Monetary Fund (IMF), to assist with the rebuilding of Europe through infrastructure loans. Throughout the years the World Bank Group (the Bank) has redefined its role as a development institution that focuses on the eradication of poverty, while undergoing several changes in the way it operates.

From post-war reconstruction to Washington Consensus

When the Bank was no longer needed to finance projects in Europe, it expanded its operations to infrastructure lending for the rest of the world. In the 1970s, the Bank broadened its focus beyond infrastructure when it declared its goal to be eradicating poverty worldwide. Working towards that stated goal, the Bank become involved in projects relating to agriculture, health, and education.

It was not until a decade later that the Bank took a central role in dictating the domestic policies of its borrowers. The Bank started to tie its loans to policy reforms through Structural Adjustment Programmes (SAPs), which conditioned loan disbursements on implementation of designated reforms. These reforms were supposed to constitute a pro-growth macroeconomic framework that would enable countries to repay their loans.

However, the policies imposed by the Bank were mostly chosen on ideological grounds, rather than evidence, and did not reflect heated debates among economists about development strategies. Many of the prescriptions of the Bank stood in stark contrast with the history of how developed countries achieved that status.[1]

Research from International Monetary Fund staff has shown that most countries that have increased their incomes and development level in recent decades have done so by actively implementing industrial policies.[2] This approach involves an intentional framework of linkages to support innovation and attract private investment in target areas, rather than expecting markets to identify those areas on their own.

In her book "Behind the Development Banks", Sarah Babb illustrates the role that US politics and the right-wing administration of Ronald Reagan played in deciding the policy package the Bank would impose on its borrowers. The Reagan administration used multilateral development banks, as well as the IMF, to bring trickle-down, supply-side economics to the rest of the world, claiming this approach would "disseminate the magic of the marketplace to developing countries."[3]

Reagan's Undersecretary of the US Treasury, James Baker, led the charge. At the 1985 Annual Meetings of the Bank and IMF, he released the Baker plan on debt and international finance. It called for lending to only occur under strict loan conditionality that would require countries to adopt structural and "market-oriented" policies. The plan also called for private commercial banks to lend more money to developing countries to support the economic adjustment programmes that would be implemented by the Bank.[4]

The involvement of private commercial banks built on the "B-loans", which were introduced by the Bank in 1983 to stimulate commercial lending to developing countries and increase private co-financing of Bank operations. The Bank claimed that co-financing through B-loans would "mobilize commercial bank finance for investments on better terms and conditions than would be possible without

1 Ha-Joon Chang. "Kicking Away the Ladder: An Unofficial History of Capitalism, Especially in Britain and the United States," Challenge, vol. 45, no. 5, 2002.
2 Reda Cherif and Fuad Hasanov. "The Return of the Policy That Shall Not Be Named: Principles of Industrial Policy", International Monetary Fund Working Paper No. 19/74, 2019.
3 Sarah Babb, Behind the Development Banks: Washington Politics, World Poverty, and the Wealth of Nations, University of Chicago Press, 2009.
4 James Baker Remarks." Summary Proceedings: 1985 Annual Meetings of the Boards of Governors, edited by the International Bank for Reconstruction and Development, the International Finance Corporation, and the International Development Association. Seoul: IBRD, IFC, and IDA.

the Bank's involvement."[5] B-loans were forged under the presidency of Tom Clausen, who served as CEO of Bank of America both before and after his tenure at the World Bank. Under these arrangements, the Bank offered payment sharing and guarantees in the case of default.

By 1987, however, debt problems were rising rapidly in developing countries, and the Senior Vice President for Finance recommended ending B-loans because they had become "highly risky" and could place too high a financial obligation on the World Bank.[6] He later concluded: "We tried too hard to develop a more attractive co-financing package [for commercial lenders] and we went too far."[7] At the same time, commercial lenders wanted stricter conditions in the loan agreements and even more risk to be assumed by the World Bank.[8] A sweeping history of the Bank written by the Brookings Institution in 1997 concluded that "the rhetoric of private financing far exceeded actual achievements."[9]

Until the 1980s it was common for countries to actively manage international inflows and outflows of capital and impose restrictions on such flows. SAPs forced countries to allow the free flow of capital, opening the door for an expansive global financial system, along with multinational corporations seeking profit opportunities in developing countries and emerging markets. As a result, those countries became increasingly vulnerable to the cycles of global finance, commodity prices determined abroad, and exchange rate shocks.

Many developing countries were already heavily indebted to foreign creditors.[10] A series of interest hikes in the US, amongst other factors, made debt payments unsustainable for many borrowers. At the time, the Bank and other international financial institutions intervened to avoid defaults by lending more money. As lenders of last resort and with few other recourses for borrowing countries, it was easy for the institutions to condition their lending on the implementation of SAPs.

The policy package imposed through SAPs, also known as the Washington Consensus, became the new orthodoxy. For countries following the Washington Consensus policies, the available fiscal and monetary policy to support development strategies was severely limited.

SAPs were designed to make countries attractive to mostly foreign investors through a combination of deregulation and liberalization of domestic markets, along with protections for investors. Countries under SAPs were subjected to harsh austerity measures and pushed to privatize state-owned enterprises, particularly telecommunications or municipal public services.

The term "privatization" had not been used in the World Bank's signature publication, the World Development Report, at all until 1983, when it was presented as one of many options available to reform underperforming state-owned enterprises.[11] Structural adjustment programmes made privatization a prerogative of the Bank. Privatizations of state-owned enterprises and utilities offered lucrative opportunities for foreign investors. This worked in conjunction with the removal of restrictions on flows of capital to allow foreign financial institutions to operate freely in developing countries.

The programmes prioritized export-led activities, particularly in extractives. To accommodate those activities, labour protections were weakened, and wages suppressed to create a competitive – or in other words, cheap – labour supply. Reforms undermined collective bargaining rights, minimum wages and job security while pushing for layoffs and wage reductions in the public sector.[12] There is no compelling evidence to make the case that cutting workers' protections and suppressing wages supports growth.[13]

5 World Bank. "Review of Experience with the B-loan Instruments", November 1984.
6 World Bank. "B-Loan Cofinancing", June 1987.
7 World Bank. "Review of Experience with the B-loan Instruments", November 1984.
8 Stephany Griffith-Jones. "Loan Guarantees for Large Infrastructure Projects: The Issues And Possible Lessons for a European Facility", 1993
9 Devesh Kapur, John P. Lewis, and Richard Webb. "The World Bank Its First Half Century." Voume 1. Brookings Institution Press, 1997
10 UNCTAD. "Trade and Development Report", 2019
11 Sarah Babb, "Behind the Development Banks: Washington Politics, World Poverty, and the Wealth of Nations", University of Chicago Press, 2009.
12 ITUC. "Challenging the IFIs: Practical Information and Strategies for Trade Union Engagement with International Financial Institutions", 2008
13 ILO. "The changing nature of jobs - World Employment and Social Outlook 2015", 2015

The failure of the Washington Consensus

Far from resulting in development miracles, the market fundamentalism imposed by SAPs was a failure on all fronts: economic growth was not delivered, and progress on development stalled.

Compared to the period between 1960-1980, global growth slowed significantly between 1980-2000, the period that coincides with the widespread adoption of Washington Consensus policies. The move away from these policies by developing countries coincides with a rebound in growth.[14]

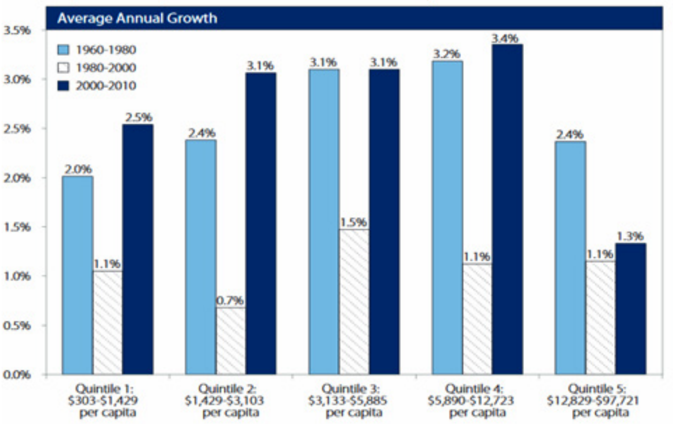

Figure 1 https://www.un.org/esa/desa/papers/2011/wp106_2011.pdf

Figure 1 illustrates average real per capita growth for countries, split into five income groups. The pronounced fall in growth can be seen for countries in all income groups, with a large rebound for all except the wealthiest countries in the period between 2000 and 2010.

The slowdown in growth from 1980 to 2000 was accompanied by a sharp decline in the progress made by countries on social indicators.[15] This is not a surprising development given the circumstances: as growth stalled and countries were subject to austerity measures, expenditures on health and education declined.

The negative effects of SAPs on health systems in African countries continue to this day, with research linking the Ebola crisis of 2015 to the weakened health infrastructure left behind by the spending cuts imposed by the Bank in the 1980s.[16] After the Ebola outbreak, the Bank created and sold "pandemic bonds" that raise money on financial markets and would pay out in case of a future outbreak.[17] However, their design favoured investors and failed to pay out after the second-largest outbreak of Ebola was registered in 2018.[18]

The emphasis of SAPs on export-oriented activities resulted in a series of unintended consequences. The growth of resource extraction and agribusiness caused environmental damage, and often led to massive displacement of people from their lands.

Privatization of utilities also failed to deliver improved service or cost reductions, leading to massive popular backlash. On the contrary, privatized services were often less reliable and more expensive, and excluded access to them from the most vulnerable. Particularly in the case of water and following protests and social unrest, a worldwide trend in undoing privatizations has been documented since 2000.[19]

To make matters worse, despite the spending cuts and austerity measures, countries continued to accumulate unsustainable debt burdens. The negative impact of austerity on growth resulted in countries increasing the share of their resources directed towards debt payments and away from providing necessary social services.[20]

During this period, the Bank failed to achieve what was already a stated goal of the institution, namely poverty reduction. The Bank released its $1 per day poverty line in 1990 to illustrate the number of people living in "extreme poverty." According to that measure, in Sub-Saharan Africa the number of people living in extreme poverty increased from 164 million in 1981 to 298 million in 2004.[21] Furthermore, this measure of poverty has been heavily criticized for its arbitrary methodology that tends to underreport poverty. The design of the line allows the Bank to

14 Mark Weisbrot and Rebecca Ray. "The Scorecard on Development, 1960-2010: Closing the Gap?", UN DESA Working Paper No. 106, June 2011.
15 Mark Weisbrot and Rebecca Ray. "The Scorecard on Development, 1960-2010: Closing the Gap?", UN DESA Working Paper No. 106, June 2011.
16 Waiswa Nkwanga. "The Ebola crisis in West Africa and the enduring legacy of the Structural Adjustment Policies", LSE Blog, 2015.
17 World Bank. "World Bank Launches First-Ever Pandemic Bonds to Support $500 Million Pandemic Emergency Financing Facility", Press Release, June 2017.
18 Kate Allen. "World Bank's 'pandemic bonds' under scrutiny after failing to pay out on Ebola", Financial Times, February 2019.
19 Emanuele Lobina, Satoko Kishimoto, Olivier Petitjean. "Here To Stay: Water Remunicipalisation As A Global Trend", Public Services International Research Unit (PSIRU), Transnational Institute (TNI) and Multinational Observatory, November 2014.
20 UNCTAD. "Trade and Development Report", 2019
21 ITUC. "Challenging the IFIs: Practical Information and Strategies for Trade Union Engagement with International Financial Institutions." 2008

count people who are suffering from hunger, or lack basic sanitation, according to the UN, as being above the poverty line.[22]

As pressure from trade unions and civil society mounted, and the failure of the Washington Consensus could no longer be denied by the Bank, the institution was forced to respond. In 1999, the Bank, along with the IMF, launched the first initiative to grant debt relief to 36 heavily indebted poor countries (HIPC). This was followed by the multilateral debt relief initiative (MDRI) launched in 2006 that offered additional support to countries completing HIPC.

As part of these initiatives, Poverty Reduction Strategy Papers (PSRP) were introduced, which were supposed to offer countries more ownership over programmes and allow for more input from civil society. However, in practice PRSPs mostly replicated previous policies and with minor tweaks and mitigation measures. The macroeconomic framework of SAPs was unaffected.[23]

22 Sharan Burrow. “The World Bank Needs to Understand Poverty and What it Actually Costs a Family to Live on”, IPS News, August 2019.
23 Bretton Woods Project. “Poverty Reduction Strategy Papers (PRSPs): A Rough Guide”, April 2003.

The World Bank Group in the 21st century

The World Bank Group is composed of the International Bank for Reconstruction and Development (IBRD), which provides financing to middle-income countries; the International Development Association (IDA), working with low-income countries; the International Financial Corporation (IFC), which makes loans to private sector entities; the Multilateral Investment Guarantee Agency (MIGA); and the International Centre for Settlement of Investment Disputes (ICSID). IBRD and IDA are what is usually referred to as the "World Bank" and mostly work with governments, while IFC and MIGA have historically focused on providing financing to the private sector in developing countries. ICSID operates independently from the other parts of the Bank.

In 2013, the World Bank Group set two goals for the institution to achieve by 2030. The first goal is "ending extreme poverty", defined as no more than three per cent of the world population living on less than $1.90 per day. The second goal is "boosting shared prosperity", which is quantified as growing the incomes of the bottom 40 per cent in each country. No mention is made of incomes for the bottom 40 growing faster than the national average, which would be necessary in order to reduce inequality.[24]

Lending and policy advice

The Bank has come a long way since the structural adjustment in some areas, offering more nuanced advice and broadening the scope of its research. The Bank now recognizes the urgency of climate action, and the importance of tackling issues such as gender inequalities. However, the proposed solutions to these issues continue to be derived through a supply-side framework.

Bank lending is based on Country Partnership Frameworks (CPFs), which are supposed to identify country specific priorities and guide the support of the Bank. This approach is more adapted to the realities of each country than programmes designed in the past. The Country Partnership Frameworks replaced the previous Country Assistance Strategies from the SAP era and are structured around what the Bank calls a Systematic Country Diagnostic. The reforms identified as necessary are supported through Development Policy Financing, a 2004 rebranding of the Structural Adjustment Loans of the Washington Consensus era.

The diagnostics undertaken aim to identify "constraints" that are holding countries back from achieving the Bank's twin goals. Although attempts to identify constraints incorporate a broad range of factors, solutions assume that improving the functioning of markets for private sector entities will trickle down to income growth.[25] Thus, the Bank continues to promote policies that actively undermine its stated goals.

For example, the Bank's strategy on gender urges action to end violence against women and achieve equality between genders. However, it continues to propose weaker employment protection under the guise of "flexibility" to allow more women into the labour market.[26] This advice is in line with policies of the past, and there is little evidence that these policies promote women's economic security.[27] The Bank's Development Policy Loans often have conditions on reducing public sector employment, deregulating of labour markets, narrowly targeting social assistance, and regressive taxation – policies which hurt all working people but disproportionately affect women.[28]

The Bank also continues to publish its *Doing Business* index, which promotes a race to the bottom amongst countries on regulation and taxes. The index, inspired by the extreme market fundamentalism of the Heritage Foundation's Index of Economic Freedom, attracts significant media attention each year, and many developing countries strive to design their policies in order to improve their ranking.[29] However, there is no evidence that better rankings actually attract more investors.[30]

24 World Bank. "Ending Extreme Poverty and Promoting Shared Prosperity", April 2013.
25 World Bank. "Policy and Procedures." 2019
26 World Bank. "Gender Equality, Poverty Reduction, and Inclusive Growth." 2016
27 Arvo Kuddo, David Robalino, and Michael Weber. "Balancing regulations to promote jobs : from employment contracts to unemployment benefits", World Bank Working Paper, 2015.
28 Bretton Woods Porject. "The World Bank and gender equality Development Policy Financing", August 2019.
29 Leo Baunach. "World Bank Rankings Promote Deregulation at the Expense of Working People", Inequality.org, November 2019.
30 Ricardo Hausmann. "Why Governments Should Not Wait for Godot", Project Syndicate, December 2019.

As the push for outright privatization of public services was met with increasing resistance, public-private partnerships (PPPs) gained prominence within the Bank. PPPs have been proposed as a solution to make up for a shortfall in public finances and to benefit from the perceived higher efficiency of the private sector.[31] An analysis from the European Network on Debt and Development found that between 2002-2012, Bank financial support for PPPs more than tripled.[32] These numbers continue to grow, despite tepid global trends on private participation in infrastructure, as the Bank created a dedicated PPP unit in 2013.[33]

The Bank advertises PPPs as a way for governments and the private sector to share expertise and risks.[34] It has devoted a large amount of resources to incentivizing and promoting PPPs instead of public financing options. The Bank also works to create the necessary policy environment to encourage PPPs as part of its advice and policy lending. For example, the Bank developed a PPP Legal Resource Center to offer guidance for governments and private sector actors.

Rather than efficiency and reduced costs, a pattern is emerging in which governments foot the bill when things go wrong and are often responsible for hidden contingent liabilities.[35] In most cases, PPPs are more costly to the government than financing projects directly, both in developed and developing countries.[36]

Labour Issues

Policies that undermined labour rights and suppressed wages were a key component of the Washington Consensus, for the stated end goal of attracting investors with a supply of cheap labour. For the most part, the anti-worker bias of the Bank persists, with policies supporting workers viewed as market distortions. Over the years there have been some steps forward taken by some of the Bank's publications and research on developing a more nuanced position on labour markets.

One of the most important steps forward made by the Bank towards protecting labour rights was the introduction of binding labour safeguards on project lending, such as the construction of infrastructure.[37] However, these safeguards do not apply to policy lending, allowing these loans to undermine international labour standards

Under intense criticism for attacking workers' rights, the Bank suspended the labour indicator of the *Doing Business* index in 2010. Initially. The indicator ranked countries based on the ease of firing workers. However, despite removing it from the index, it continued to collect the data and make it available for other publications.[38]

In 2013, as the flagship World Development Report 2013 emphasized the need to create better jobs and showed that employment protection regulation is needed to make sure the benefits of growth are shared. The report found that protections for workers, if not excessive, do not harm growth or job creation. Furthermore, the report recommended implementing development strategies with a direct focus on employment creation. The report still labelled public sector employment as "bloated", despite its role in providing quality services in healthcare and education.[39]

In 2015, a Bank manual highlighted the positive impact of proper regulations and institutions in the areas of employment relationships, minimum wages, terminations and unemployment.[40] The report argued for "balanced" regulations that create equity and efficiency in labour markets. In keeping with the 2013 World Development Report, the approach is premised on avoiding the extremes of too little or too much regulation, both of which harm job creation and shared prosperity. The report upholds the essential role of tripartite social dialogue in the creation and execution of labour market regulations. It recognized that there is no evidence for claims that minimum wage policies have a negative impact on employment levels.

31 World Bank. "Government Objectives: Benefits and Risks of PPPs", 2016.
32 Mathieu Vervynckt and María José Romero. "Public-Private Partnerships: Defusing the ticking time bomb", Eurodad, October 2017.
33 World Bank. "Public-Private-Partnership Legal Resource Center", 2020.
34 World Bank. "Public-Private-Partnership Legal Resource Center", 2020.
35 Mathieu Vervynckt and María José Romero. "Public-Private Partnerships: Defusing the ticking time bomb", Eurodad, October 2017.
36 María José Romero. "What lies beneath? A critical assessment of PPPs and their impact on sustainable development", Eurodad, April 2015.
37 ITUC. "The labour standards of the multilateral development banks: A trade union guide", December 2019.
38 Leo Baunach. "World Bank Rankings Promote Deregulation at the Expense of Working People", Inequality.org, November 2019.
39 ITUC. "ITUC's reaction to the World Bank's report on jobs", 2012.
40 Arvo Kuddo, David Robalino, and Michael Weber. "Balancing regulations to promote jobs : from employment contracts to unemployment benefits", World Bank Working Paper, 2015.

The manual represented a major step forward on the issue of flexible employment, noting research showing that temporary employment does not produce net job creation but can fuel labour market segmentation, while having harmful effects on training, productivity, income stability and workers' economic security. The manual details effective procedures that can be used to protect workers and properly regulate temporary and part-time work. A similarly sophisticated approach for Bank staff and policymakers is counselled throughout the manual.

Implementation of the manual was uneven and by 2018, the Bank began to reverse its nuanced approach. The World Development Report 2019 once again promoted measures that result in precarious work. Focused on the future of work, it made simplistic claims on the need for deregulation based on ideological views and anecdotes, ignoring the evidence highlighted in previous publications.[41]

A White Paper on social protection in a changing world of work went even further, reviving several proposals that were removed from the final draft of the 2019 World Development Report. The paper's advice fixated on reducing "burdensome labour regulation" – a long-time Bank byword for employment protection legislation – moving away from tripartite social dialogue, suppressing minimum wages, and shifting the burden of social security and protection off employers and almost entirely onto workers.[42] These recent publications signal a worrisome shift back towards the simplistic views on labour markets taken in the structural adjustment programmes of the past.

41 ITUC. "World Bank's World Development Report 2019: Unsatisfactory policy perspective on changes in the world of work", 2019.
42 Leo Baunach, Evelyn Astor and Stephen Kidd. "The World Bank's new White Paper falls short on its objective of 'protecting all'", Development Pathways, 2019.

Maximizing Finance for Development

At the Bank's Annual Meetings in 2017, then-president Jim Kim unveiled a full-fledged proposal for supporting the Sustainable Development Goals: Maximizing Finance for Development. It was launched as the new priority of the Bank.[43] The proposal built on previous joint work with regional multilateral development banks, the IMF, and the Group of 20 on closing the financing gap for the Sustainable Development Goals.

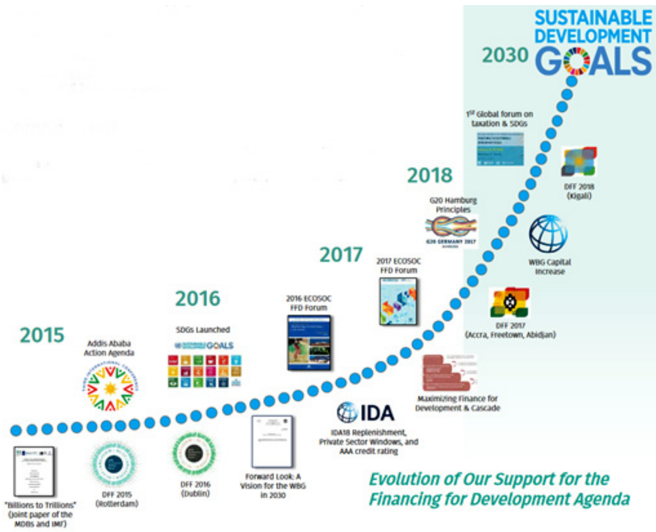

Figure 2 https://olc.worldBank.org/system/files/Financing_for_Development_at_the_Bank_Brochure.pdf

From Billions to Trillions

In 2015, the UN launched the 2030 Agenda for Sustainable Development, with seventeen Sustainable Development Goals (SDGs). The agenda built on the unfinished business of the Millennium Development Goals.[44] The Millennium Development Goals were not met globally by their 2015 target date, with uneven progress made by various regions.[45] The more ambitious, universal SDGs were adopted with an explicit commitment to leave no one behind and avoid the outcomes of the Millennium Development Goals.[46]

As the SDGs were adopted, the conversation quickly shifted to financing achievement of the targets.[47] In advance of the UN's July 2015 Third International Conference on Financing for Development in Addis Ababa, the World Bank, multilateral development banks and the IMF debuted their vision of the financing gaps and solutions. This vision was titled "From Billions to Trillions" and described a strategy to mobilize private investment to bridge the gap between the billions available in official development assistance and the trillions needed to achieve the SDGs. [48]

Billions to Trillions promised to "catalyse, mobilize, and crowd in" additional investment, estimating that every dollar spent by the multilateral development banks could bring in as much as two to five additional dollars in private sector investment. It stated that MDBs will "support partner countries in developing sound regulatory frameworks and investment climates that can attract additional private investment," while stepping up their efforts to attract additional private finance.[49]

The Addis Ababa Action Agenda that came out of the UN Conference upheld this vision of a financing gap that could only be filled by private investment and established a Global Infrastructure Forum to help coordinate between the multilateral development banks. [50] The agenda also assigned an important role to the idea of blended finance, a concept that refers to combining sources of public and private finance. However, exactly how the sources of revenue are blended has no common definition amongst development finance institutions.[51]

Infrastructure as an asset class

This agenda began moving in several international fora, including the Group of 20 (G20). During the German presidency, the G20 infrastructure working group released the "Principles on Crowding-In

43 World Bank. "President Jim Yong Kim Speech at the 2017 Annual Meetings Plenary", 2017.
44 UN. "Transforming our world: the 2030 Agenda for Sustainable Development", 2015.
45 UN. "The Millennium Development Goals Report", 2015.
46 UN. "Sustainable Development Goals kick off with start of new year", 2015.
47 UNCTAD. "World Investment Report", 2014.
48 World Bank. "FROM BILLIONS TO TRILLIONS: MDB Contributions to Financing for Development", July 2015.
49 World Bank. "FROM BILLIONS TO TRILLIONS: MDB Contributions to Financing for Development", July 2015.
50 UN. "Addis Ababa Action Agendaof the Third International Conference onFinancing for Development", July 2015.
51 ODI. "Blended finance in the poorest countries", April 2019.

Private Sector Finance", commonly referred to as the Hamburg principles. It affirmed the G20's commitment to the vision and proposed a common framework for attracting finance to infrastructure projects. Mostly importantly, the principles set a tradable asset classed backed by infrastructure projects. [52]

An asset class bundles together instruments with similar legal and contractual characteristics into one pool of assets. Then securities, backed by the expected revenues from the underlying assets, are sold to investors. Securitization comes with significant risks, both in terms of financial stability and quality of investments.

An extensive critique of the risks carried by this model can be found in two reports from the Heinrich Böll Stiftung. "Securitization for Sustainability", by Daniela Gabor, points out the systemic risks in the development process that are fuelled by securitization and involvement of shadow banks.[53] Shadow banks are non-bank financial institutions such as pension funds, insurance companies, or hedge funds that manage large amounts of assets but fall outside of the scope of banking regulation. "From Washington Consensus to Wall Street Consensus" by Rick Rowden concludes that the risks carried cannot be justified and an alternative model to scale up public finance is needed to truly deliver on the SDGs.[54]

Despite the warnings and calls for more public investment, the Hamburg principles call for the creation of an "investor-friendly environment" in which the development banks play the role of "enhancing a country's investment climate" and "creating a pipeline of commercially viable, bankable projects."[55] For projects that target "poor consumers", rather than using public investment, the G20 recommends attracting private investors through favourable blended finance.[56]

The G20 identifies the need to standardize credit instruments in order to achieve the goal of bundling various investments into an asset class. A focus on standardized, bankable projects to create the base for infrastructure as an asset class loses focus on the development impact or contribution to the SDGs. At the G20 in 2019, the roadmap to infrastructure as an asset class was referenced in the final communiqué, but there have been no updates on its implementation.[57]

Building on the Hamburg principles, a roadmap to "Infrastructure as an asset class" was released in 2018. The roadmap recognizes the particularly risky nature of infrastructure projects, a significant barrier that has made "de-risking" the centre of the discussion. However, the term de-risking elides the fact that some risk cannot be eliminated, only shifted onto other actors or hidden.[58]

Researchers from the European Network on Debt and Development compiled three main reasons why the asset class plan is fundamentally flawed.[59] First, it ignores the main issue of how to improve the quality and quantity of public investment. Second, as with PPPs, by increasing investment through an asset class, it is likely to prove costly to the public purse. Third, creating an asset class is a leap in the dark for investors who are not familiar with infrastructure projects in developing countries.

The Bank's MFD strategy does not call for infrastructure as a tradeable asset class but references the G20 Hamburg Principles that revolve around this vision.[60] Efforts to create an infrastructure asset class appear to have stalled at the G20, with no new developments following the 2018 roadmap.

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52 G20. "Principles of MDBs'strategyfor crowding-in Private Sector Financefor growth and sustainable development", April 2017.
53 Daniela Gabor. "Securitization for Sustainability", Heinrich Boell Stiftung, 2019.
54 Rick Rowden. "From the Washington Consensus to the Wall Street Consensus", Heinrich Boell Stiftung, 2019.
55 G20. "Principles of MDBs'strategyfor crowding-in Private Sector Financefor growth and sustainable development", April 2017.
56 G20. "Principles of MDBs'strategyfor crowding-in Private Sector Financefor growth and sustainable development", April 2017.
57 G20. "Communiqué,G20 Finance Ministers and Central bank Governors Meeting, Fukuoka", June 2019.
58 Jesse Griffiths and María José Romero. "Three compelling reasons why the G20's plan foran infrastructure asset class is fundamentally flawed", Eurodad, July 2018.
59 Jesse Griffiths and María José Romero. "Three compelling reasons why the G20's plan foran infrastructure asset class is fundamentally flawed", Eurodad, July 2018.
60 Development Committee, "From Billions to Trillions: Transforming Development Finance Post-2015 Financing for Development: Multilateral Development Finance", April 2015. https://siteresources.worldbank.org/DEVCOMMINT/Documentation/23659446/DC2015-0002(E)FinancingforDevelopment.pdf

Over the edge: The cascade approach to MFD

The Bank's first step to operationalizing the Billions to Trillions proposal was the introduction of the "cascade" approach. The cascade approach is a step-by-step guide for Bank staff on deciding about funding a project. It advises staff to only seek public financing as the last resort. The process is illustrated by the Bank in Figure 3. The cascade makes commercial financing the preferable option that should be accommodated through any reforms that improve the environment for investors, and insurance or guarantees that protect against possible losses.

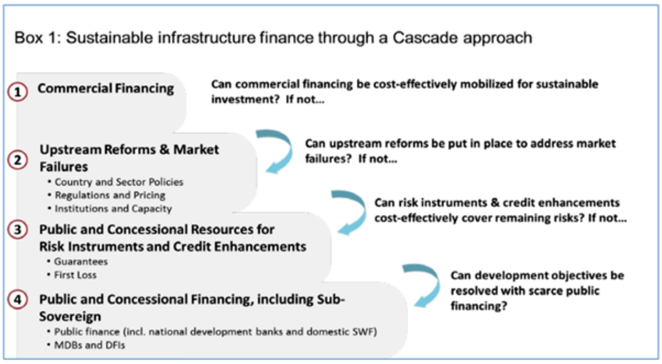

Figure 3: Cascade Approach http://siteresources.worldBank.org/DEVCOMMINT/Documentation/23745169/DC2017-0002.pdf

The 2017 Spring communiqué of the Development Committee, a meeting of finance ministers that provides overall direction to the Bank, presents the cascade as a path and commitment to "act systematically and at scale" towards creating markets.

Maximizing Finance for Moderate (MFD) was fully launched as a banner initiative a few months later, at the 2017 Annual Meetings of the Bank. At the launch event, Jim Kim introduced MFD as an "evidence-based approach" that would increase resources for developing countries while minimizing the burden of public debt. Kim presented developing countries as a market opportunity to achieve higher returns for investors, mostly from rich countries, that hold trillions in low-yielding investments.

Jim Kim promised "win-win" solutions, where investors would get a good return, and countries would utilize these resources to meet development goals." The speech provided the example of private solar power and investments in the gas sector in Egypt, which freed up fiscal space for social programmes and cash transfers to "cover an additional 1.7 million poor Egyptians."[61] Left unsaid was that poverty in Egypt increased significantly around the same period,[62] with millions more plunged into poverty, while energy prices increased.[63]

Despite the "win-win" rhetoric, Jim Kim was criticised for shifting the direction of the Bank and turning it into "a creature of Wall Street."[64] He embraced and praised "high finance" and eventually departed the Bank before the end of his term to join a private equity fund focused on infrastructure.[65]

Under the MFD cascade approach, illustrated in Figure 4, for any project, a "sustainable private sector solution that limits public debt and contingent liabilities" should always be prioritized. Before using public investment, Bank staff should first address "policy and regulatory gaps" and risks. To mitigate risks, the cascade suggests the use of Bank instruments and insurance products, including to backstop potential contingent liabilities for governments entering a PPP agreement.[66]

Box 1: Maximizing Finance for Development – Cascade Objective and Algorithm

Maximize financing for development by leveraging the private sector and optimizing the use of scarce public resources. WBG support will continue to promote good governance and ensure environmental and social sustainability.

When a project is presented, ask: "Is there a sustainable private sector solution that limits public debt and contingent liabilities?"

- If the answer is "Yes" – promote such private solutions.
- If the answer is "No" – ask whether it is because of:
  - Policy or regulatory gaps or weaknesses? If so, provide WBG support for policy and regulatory reforms.
  - Risks? If so, assess the risks and see whether WBG instruments can address them.

If you conclude that the project requires public funding, pursue that option.

Figure 4: MFD and Cascade http://siteresources.worldBank.org/DEVCOMMINT/Documentation/23758671/DC2017-0009_Maximizing_8-19.pdf

Through MFD, the Bank positions itself as an institution that can support development goals by helping scale up private finance mobilization using its expertise to "promote private investments that that are economically viable and cost-effective, fiscally and commercially sustainable, balanced from a risk-reward perspective, and transparent", while also ensuring investments meet environmental and social standards.[67]

61 World Bank, "World Bank Group President Jim Yong Kim Speech at the 2017 Annual Meetings Plenary", October 2017.
62 According to World Bank data, between 2015 and 2018 (only available points) 6.3 million additional people were plunged into poverty.
63 Reuters, "Egypt to raise fuel prices by up to 78 percent from midnight: source", 4 July 2014.
64 Landon Thomas Jr., "The World Bank Is Remaking Itself as a Creature of Wall Street", *New York Times*, 25 January 2018.
65 Politi, Fleming and Vandevelde, "World Bank's Jim Yong Kim to join private equity firm" Financial Times, 8 January 2019.
66 Development Committee, "Maximizing Finance For Development: Leveragingthe Private Sector For Growth And Sustainable Development", September 2017.
67 World Bank Group, "Maximizing Finance For Development (MFD)", Undated.

However, the Bank's move away from investing in projects directly towards policy loans and technical support designed to attract private investors for projects also has important implications in terms of environmental and social safeguards. Currently the Bank applies an environmental and social safeguard policy on its project lending, which includes provisions protecting the rights of workers. This operational shift would render many of these safeguards that trade unions and civil society groups fought to secure obsolete, as they are currently not applicable to policy loans.[68]

68 ITUC, "The labour standards of the multilateral development banks: A trade union guide", December 2019.

Implementing MFD

When MFD was first announced, the Bank stated that it would pilot the initiative in nine countries: Cameroon, Cote d'Ivoire, Egypt, Indonesia, Iraq, Jordan, Kenya, Nepal and Vietnam.[69] The progress reported on this pilots and steps taken to implement MFD have often amounted to little more than re-labelling projects or reforms that began before MFD.

Two new instruments were launched as part of MFD: Infrastructure Sector Assessments Programme (InfraSAP) and Country Private Sector Diagnostics (CPSD). These new tools aim to help client governments identify priority projects and reforms for improving infrastructure and expanding the role of the private sector in different sectors. The Country Private Sector diagnostics are a drumbeat of recommendations to enable PPPs, loosen investment rules, reduce trade barriers, open new sectors to private activity, and privatize SOEs or otherwise reduce their role in the economy. The methodology of identifying and addressing "binding constraints at the country, market, or sector level," echoes the Systematic Country Diagnostics and Country Partnership Frameworks that are already in place.[70]

In the case of Jordan and Iraq, an early document on MFD progress lists a series of reforms undertaken by each country, mostly around enabling PPPs. However, the measures all date from before 2017.[71] For Kenya, the Bank highlights private sector energy investments as examples of successful MFD implementation, pointing to projects that date back to the early 2000s.[72] For Cameroon, the Bank uses an energy projected started in 2009 as an example.[73] In the case of Cote d'Ivoire, advice on implementing MFD also revolved around transitioning to renewable energy through privatization of energy provision.[74]

In the case of Vietnam, the Bank released a document in December 2018 titled "Maximizing Finance for Development in the Energy Sector'' that offers similar advice on how to increase the private provision of energy. Notably, the report does not actually mention MFD, or the cascade approach, beyond the title.

For Egypt, the Bank released a report on increasing private investment in infrastructure projects in 2018. That report is more comprehensive and addresses multiple sectors where Egypt should aim to attract more private financing.[75] While the report's web address includes the word "InfraSAP'', the text of the report makes no mention and is similarly silent on MFD or the cascade approach.

InfraSAPs

The slow and uneven flow of InfraSAPs suggests that some reports have run into problems, as revealed by the case of Indonesia. Produced in 2017-2018 and erroneously posted online, it came to the attention of Indonesian media in early 2019. The Indonesian government had never consented to its publication, likely because InfraSAP is critical of the state-owned enterprises that are a central vehicle for Indonesia's ambitious infrastructure plans. The Bank responded with a press release stating that consultations on the InfraSAP were ongoing and it would be released at a future date.[76]

The available text of the Indonesia InfraSAP proposes a shift to private finance and participation through a "pipeline of bankable PPP and commercially finance projects", reforms to state-owned enterprises, and expansion of capital markets and financial products.[77] For example, the InfraSAP proposes selling parts of existing infrastructure held by state-owned enterprises, or its revenues, to private investors or simply contracting out administration. It is argued that "in a revenue sharing scheme, where the private operator is incentivized to increase income, SOEs can benefit from concessions without having to concede the full ownership of the asset."[78]

69 Development Committee, "Maximizing Finance For Development: Leveragingthe Private Sector For Growth And Sustainable Development", September 2017. h
70 Ibid
71 World Bank, "Mashreq Maximizing Finance For Development (MFD) strategy: 2019–2021", July 2018.
72 World Bank, "Maximizing Financing for Development in Action: The Kenya Energy Sector Experience", April 2019.
73 World Bank, "Cameroon: Providing Electricity and Strengthening Local Capital Markets", July 2018.
74 IFC, "Unlocking private investment : A Roadmap to achieve Côte d'Ivoire's 42 percent renewable energy target by 2030", January 2018.
75 World Bank Group, "Egypt: Enabling Private Investment and Commercial Financing in Infrastructure", 2018.
76 World Bank, "Indonesia: World Bank Statement", January 2019.
77 World Bank, "Infrastructure Sector Assessment Program: Indonesia 2018", Unofficial, pg. , 7.
78 Ibid., 86

The aim is to move beyond private investors as a source of capital, and to inject them more directly into the ownership and profit-making of infrastructure. To attract private investment in sectors including electricity, water, roads, urban transit, the Bank recommends raising user fees overall while balancing with affordability. The InfraSAP appears critical of the current regulations that tightly control private participation in the water sector.[79]

The InfraSAP recommends a range of financial interventions, including greater use of securitization, local finance facilities, project bonds and swap markets. The national social security system, which trade unions have fought tirelessly to have implemented, is presented as an opportunity to expand capital markets. Ironically, the move to a national social security and health system in Indonesia stands in contrast to some of the overall policy advice of the Bank on social security and social protection.[80]

The document proposes reforms to better enable pension managers to invest in new companies and investment vehicles. Enabling such vehicles is also a priority, with recommendations to reduce tax burdens to enable securitization. A subtle assessment, nonetheless, was offered of securitizing infrastructure, noting that the risk profiles and quality of the projects in a security will vary and prevent investors from making choices and negatively affect "optimum pricing".[81]

Although the current "complexity, inconsistency, and uncertainty of the legal framework is a deterrent to private investment", the InfraSAP does not fully grapple with the difficulties of regulating a scaled-up landscape of PPPs and other private participation in infrastructure alongside highly complex financial instruments. However, the InfraSAP does offer important policy advice on streamlining governance, making decisions regarding the appropriate use of PPPs, and properly managing contingent liabilities in procurement arrangements by state-owned enterprises.

The only full length InfraSAP publicly released under that name is for Nepal.[82] The report states it presents a strategy to "maximize financing in the energy, transport and urban infrastructure sectors", and includes one mention of the cascade approach. The assessment is centred on PPPs, foreign direct investment and capital market deepening to expand energy, transport and urban services including water and waste. Regarding electricity, the InfraSAP observes that "the private sector is eager for a greater role in the development of the sector but lacks a level playing field against the [Nepal Electrical Authority]" in transmission and distribution. Changes are encouraged to make the Electrical Authority more reliant on commercial finance. [83]

In road transport, where Nepal's private sector has low performance, quasi-PPPs are suggested, such as a model in which the government funds a substantial portion of the costs and performance-based payments during operation, with the private partner shouldering maintenance, administration and remaining construction costs. This approach strengthens the ongoing oversight of the project and the ability of the government to intervene if problems arise.

The Nepal InfraSAP also discusses the importance of gender and inclusion measures, including targets for the participation of women and marginalized groups in infrastructure decision-making and construction. Strengthening environmental and social standards is also highlighted, including recommendations to introduce systematic environmental impact assessments and strengthen occupational health and safety with training, proper funding of prevention measures and penalties for violations.[84]

In both the InfraSAPs for Nepal and Indonesia, the instances of prudential advice around regulation and public management are buried under a wave of recommendations for private-led infrastructure expansion. Further, such measures are always in the service of better promoting PPPs rather than an analysis of approaches to achieve national infrastructure and development plans.

Country Private Sector Diagnostics

The use of CPSDs has been more widespread than InfraSAPs. Diagnostics have been completed and publicly released for at least eleven countries. The diagnostics are created through joint work inside

79 Ibid., 103-4, 85
80 Baunach, Astor and Kidd, "The World Bank's new White Paper falls short on its objective of 'protecting all'", October 2019
81 "Infrastructure Sector Assessment Program: Indonesia 2018", pp. 127-132
82 World Bank Group, "Nepal Infrastructure Sector Assessment: Private Sector Solutions For Sustainable Infrastructure Development", 2019.
83 Ibid., 37-8
84 Ibid., 61-3 19-22

the World Bank Group that involves its private-sector lending arm, the IFC. In rhetoric and content, the diagnostics combine the MFD and cascade approach of the main part of the World Bank with the "creating markets" focus of the IFC.

Many of the diagnostics approvingly cite the *Doing Business* report as justification for recommended reforms, including the Paying Taxes Indicator that has been criticized for spurring a race-to-the-bottom in corporate taxation.[85] However, the diagnostics take a more nuanced approach. Each study highlights a handful of sectors, usually three, that should be the highest priority for promotion and reform. This is selected through a "sector scan" that weighs the feasibility of reform alongside the desirability of expanding the sector in terms of development, including the potential to create jobs and foster inclusion. The quality of jobs is not always considered, with the focus typically on the volume of employment creation. Notably, the methodology for the Burkina Faso sector scan compares informal and formal job creation potential and examines the rate at which additional revenue converts into higher earnings per formal job.[86]

Energy, telecommunications and transport are repeatedly identified as priorities, but the diagnostics go beyond the infrastructure focus of MFD to promote an enabling environment for private activity in agriculture and agribusiness, finance, housing, education and health. The recommendations for broadening value-added activities in manufacturing and food supply chains are likely to have a beneficial development impact and are squarely in the purview of commercial activity. Policy advice on infrastructure, transport and energy do not always fully address the access and poverty ramifications of private-led expansion and PPPs. Health and education, however, emerge as areas where the diagnostics diverge sharply from the Sustainable Development Goals and the role of public systems as part of an enabling environment for both economic growth and human development.

The Indonesia diagnostic acknowledges that "international evidence does not support the assumption that increasing the private provision of healthcare will automatically improve service quality or promote efficiency, and an expanded role for the private sector could actually worsen inequities in the quality and distribution of health services. Similarly, the international experience with health-sector PPPs has been mixed, and their effectiveness largely depends on government commitment and capacity." However, the Bank proceeds to recommend further private involvement in healthcare.[87] In Nepal, the diagnostic notes that public health insurance is key to equity but recommends further openings for private health insurance.

Quality and access are used as arguments for greater private participation and involvement in education, citing gaps in public education systems. The private sector is positioned as the solution and a source of efficiency – and the problem of inadequate education coverage and quality as an investment opportunity. In Ghana, the diagnostic cites the opportunity for "attracting development impact investors and development-partner backing for private low-fee primary and secondary schools." This would follow the model of IFC's highly controversial investment in Bridge Academies, a fee-based provider that has been criticized for using untrained teachers with a curriculum that does not meet national standards, and pulling poor students away from functioning public schools.[88]

More commonly, the diagnostics recommend private provision of technical and vocational education and of ancillary education services, such as materials and technology.[89] The financial and education sector can partner in Angola, according to the Bank, to design payment plans that would avoid the likelihood of default if normal student loans were expanded.[90]

In Ghana, the diagnostic notes that there are no barriers to private education provides, but still advises further action by "leveling the playing field with the public sector, promoting PPPs, and expanding [private] reach through vouchers."[91] The example

85 Charles Kenny and Justin Sandefur, "The World Bank's Uncivil War on Corporate Tax", Center for Global Development, January 2020.
86 World Bank and IFC, "Creating Markets in Burkina Faso : Growing Burkina Faso's Private Sector and Harnessing it to Bolster Economic Resilience", July 2019, pp. 73-4
87 World Bank and IFC, "Creating Markets in Indonesia : Unlocking the Dynamism of the Indonesian Private Sector", October 2019, pg. 35
88 Education International, "World Bank ombudsman to launch investigation into IFC funding of Bridge International Academies", October 2019.
89 See, for e.g.: World Bank and IFC, "Creating Markets in Burkina Faso : Growing Burkina Faso's Private Sector and Harnessing it to Bolster Economic Resilience", July 2019, pg. 37.
World Bank and IFC, "Creating Markets in Indonesia : Unlocking the Dynamism of the Indonesian Private Sector", October 2019, pg. vii.
World Bank and IFC, "Creating Markets in Nepal", November 2018, pg. 47.
World Bank and IFC, "Creating Markets in Angola - Opportunities for Development Through the Private Sector", April 2019, pg.
90 Ibid., xii.
91 World Bank and IFC, "Creating markets in Ghana", November 2017, pp. 8, 28.

of an IFC-backed education PPP with Odebrecht in Brazil is given as an example for Ghana to follow. Under the arrangement, Odebrecht constructed the school and was given a 20-year tender to administer all non-teaching services, such as maintenance.[92]

Short of privatization, the solution offered by the diagnostics is often expansion of private contracting in the operations of state-owned enterprises or the provision of public services, such as the recommendation in Nepal to expand contracting opportunities in public health.[93] In Angola, the diagnostic recommends private outsourcing of stevedoring in addition to PPPs in maritime ports. The justification of outsourcing is higher productivity and better prices, which would likely be achieved through lower pay and working conditions for dockworkers.[94]

Openness to foreign firms is also central, despite the importance of joint ventures and other tools to ensure technology transfer, localization of revenue and taxes, and development of domestic firms. Angola is also counselled to eliminate rules that international firms cannot bid on public works projects under $2.3 million, and it is recommended that Nepal allow complete foreign ownership in food service, retail, construction, tourism, paper and energy.[95]In Rwanda, where state-owned enterprises have been a successful tool of industrialization and diversification, the diagnostic admits that "SOEs are needed to compensate for market failure. The normal reluctance of private investors to invest enough in such public goods as infrastructure is one market failure." Gradual privatization and reduction of state involvement in counselled.[96] Burkina Faso paints a different picture and raises questions about the underlying logic of the diagnostics. Privatization was extensive, and state-owned enterprises have a limited role that the Bank deems as not crowding out private investment and operations. Nonetheless, Burkina Faso has transport, energy and skills problems and a weak private sector.[97]

It is recommended that Burkina Faso strengthen the collective voice of employers, including the "advocacy" capacity of the Chamber of Commerce and the strengthening of "platforms for public-private dialog on business climate reforms, with existing events and mechanisms organized by the Chamber of Commerce and Industry as a foundation".[98] In this and other diagnostics, social dialogue, collective bargaining and labour rights are absent, and the enthusiasm of the diagnostic for strengthening the power and influence of business stands in contrast to frequent Bank aversion to strengthening labour market institutions.

The diagnostics are based on extensive consultation with employer associations and businesses, but do not appear to have consulted trade unions. The role of tripartite social dialogue in promoting private sector expansion that results in quality jobs including living wages and upskilling is never raised. Many countries pursue subsidies, tax holidays and special economic zones with reduced regulation and worker protections as strategies to attract the private sector. In the diagnostics concerned with this aim, the issue only appears in Morocco, where policymakers are advised to harmonize incentives across all exporters and end preferential incentives for those in special economic zones.[99]

For the most part, the diagnostics avoid the aggressive pressure for labour market deregulation that has come from the Doing Business report and other World Bank policy advice. The South Africa diagnostic only mentions critiques of sectoral collective bargaining and the 2019 minimum wage law in a footnote, and the Kenya report recommends formulating policies to help the transition from the informal to the formal economy.[100]

Morocco is also a notable exception in this area, with the diagnostic arguing that the minimum wage is too high for the country's per capita national income, and that labour market regulations have limited job creation and therefore dampened aggregate demand and driven under-employment. The diagnostic recommends pension and unemployment benefit reform, the introduction of differential minimum wages by region and sector, and labour market flexibility including greater allowance of fixed-term

92 Robert Bissio, "Leveraging corruption - how World Bank funds ended up destabilizing young democracies in Latin America", Social Watch, February 2017.
93 World Bank and IFC, "Creating Markets in Nepal", November 2018, pp. 44, 14.
94 World Bank and IFC, «Creating Markets in Angola - Opportunities for Development Through the Private Sector", April 2019, pg. xx.
95 Ibid., pg. 20.
World Bank and IFC, "Creating Markets in Nepal : Country Private Sector Diagnostic", November 2018, pg. , viii.
96 World Bank and IFC, "Creating Markets in Rwanda : Transforming for the Jobs of Tomorrow", March 2019, pg. , 17.
97 World Bank and IFC, "Creating Markets in Burkina Faso : Growing Burkina Faso's Private Sector and Harnessing it to Bolster Economic Resilience", July 2019, , pp. 7, 18.
98 Ibid., 55.
99 World Bank and IFC, "Creating Markets in Morocco : A Second Generation of Reforms - Boosting Private Sector Growth, Job Creation and Skills Upgrading", June 2019, pg. 13.
100 World Bank and IFC, "Creating Markets in South Africa: Country Private Sector Diagnostic", pg. 130.
World Bank and IFC, "Creating Markets in Kenya : Unleashing Private Sector Dynamism to Achieve Full Potential", July 2019, pg. 6.

contracts. Such contracts are currently limited to one year in duration and cannot be used for permanent tasks.[101] The effect of these reforms on aggregate demand, productivity and working conditions is not considered.

Although the diagnostics move in a useful direction by incorporating jobs into the selection of priority sectors, the centrality of binding constraints keeps the analysis fixed on barriers to foreign investment and the desires of the private sector. While the private sector is constantly extolled and country policymakers advised to undertake a raft of reforms to enable its expansion, the diagnostics are almost entirely silent on labour rights, collective bargaining and the quality of employment.

101 World Bank and IFC, "Creating Markets in Morocco : A Second Generation of Reforms - Boosting Private Sector Growth, Job Creation and Skills Upgrading", June 2019, pp. 19-20.

The Financialization of Development: Beyond Maximizing Finance for Development

The Bank's romance with private finance dates back to the Baker plan and 1980s B-loans that sought to increase commercial lending to developing countries but were ended when Bank officials concluded that the generosity of de-risking had gone too far. MFD is less a departure, and more a redoubling and extension of the Bank's prior policy positions. It is telling that projects predating MFD have often been used by the Bank to illustrate how the approach works.

There have been few public updates on MFD in 2019 and into 2020. Noticeably, the 2019 Annual Report of the Bank and the Fall 2019 Development Committee communiqué make no mention of MFD. MFD was presented as complementary to, and building upon, existing initiatives of the World Bank Group including the IFC's "Creating Markets" strategy, the Multilateral Investment Guarantee Agency (MIGA) 2020 strategy and the IFC's Joint Capital Market Program. While the MFD label seems to be missing from recent Bank documents, these initiatives continue to grow, along with the Bank's continued push for increased reliance on financial markets for development.

The IFC's role within the Bank is to work with and fund the private sector. Under its current strategy, this is thought of in terms of helping "create" markets and opportunities for the private sector.[102] In practice, this can mean replacing public provision of utilities. In publicizing its Creating Markets strategy, the IFC cited a wind energy project in Pakistan.[103] While the project helps Pakistan transition towards renewable energy, it also steers the country toward private provision of that energy.

MIGA, has significantly expanded its operations. The often-overlooked arm of the World Bank Group offers products to insure against political and other risks including non-payment by governments or state-owned entities, or the possibility of nationalization.[104] The guarantees offered by MIGA increased from $2.8 billion in 2015 to $5.5 billion in 2019 and are expected to continue growing.[105] MIGA has remained profitable over the years and has rarely made payouts on insured projects.[106] However, as it takes on more projects and takes its place on the front lines of de-risking infrastructure in developing countries, it is unclear if this record will continue.

Another part of the IFC Creating Markets strategy is the Joint Capital Markets Program (J-CAP). It provides countries with technical assistance to develop financial markets and create financial products denominated in domestic currencies.[107] While having financial markets in domestic currency protects from some risks, overly rapid or premature deepening of financial markets creates risks to financial stability. Overall, financialization increases inequality, fuels speculation and can undermine the development of a robust real economy that produces quality jobs.[108]

To increase the footprint of the IFC and MIGA in lower income countries that qualify for concessionary lending, the Bank created the Private Sector Window (PSW) in the 18th round of replenishment of the International Development Association in 2016. The PSW redirects some of the concessionary funding away from the International Development Association, which lends to governments in low-income countries, and gives it to IFC and MIGA to support private sector actors in those countries through advantageous financing packages and tools. This approach reverses the previous practice of transferring some of IFC's profits, mostly made through investments in middle-income countries.[109]

The de facto subsidization of the private sector is justified by the argument that it will crowd-in more investment and expand the private sector in low-income and fragile states that would normally

102 IFC, "Creating Markets".
103 IFC, "Creating Markets: Wind Energy Transforms Pakistan", November 2019.
104 MIGA, "Products".
105 MIGA 2019 Annual Report
106 MIGA, "Management's Discussion & Analysis and Financial Statements", June 2019.
107 IFC, "Joint Capital Market Program (J-CAP)".
108 Martin Cihak and Ratna Sahay, "Finance and Inequality", IMF Staff Discussion Note 20/01, January 2020.
109 ITUC, "International Trade Union Confederation recommendations for IDA-19", May 2019.

not represent viable investment opportunities.[110] However, evidence does not support the claim of crowding-in private finance. Research done by the Overseas Development Institute shows that even using the most favourable metrics, $1 of blended finance mobilizes at most an additional 75 cents in middle-income countries.[111]

At the Financing for Development Forum, along with the Global Infrastructure Forum, a joint methodology was established for all multilateral development banks and development finance institutions to report on mobilization of private investment. Despite the efforts to attract more private finance, the amount of private financed mobilized has decreased since 2016 (the first year in which a figure was reported). In 2018, multilateral development banks and development finance institutions reported a total of $69.4 billion in private investment mobilized directly and indirectly in both low- and middle-income countries, out of which $33.1 billion went towards infrastructure.[112] These numbers are nowhere close to the promised trillions.

110 IFC, "Blended Finance at IFC", July 2019.
111 Samantha Attridge, "Blended finance: what donors can learn from the latest evidence", ODI, April 2019.
112 MDB Task Force on Mobilization, "2018 - Mobilization of Private Finance by Multilateral Development Banks and Development Finance Institutions", 2019.

Conclusion

The financial and developmental prudence of the billions to trillions, MFD, cascade approaches and related iterations of the effort to financialize development are highly dubious. For now, these efforts are failing on their own terms, mobilizing little and repackaging existing policy advice on structural reforms.

The lesson for the World Bank and other development actors should not be to deepen efforts to put private investment in the driver's seat of development. An alternative approach based on domestic revenue mobilization, international corporate tax reform, quality public investment and fully resourced national and multilateral development banks is eminently achievable.[113] So too is an approach to financial and labour market regulation that fosters decent work and financial stability alongside inclusive growth in the real economy. Together, these approaches can achieve sustainable development.[114]

113 UNCTAD, "Trade and Development Report 2019: Financing a Global Green New Deal".
114 International Labour Office, "Time to Act for SDG 8: Integrating Decent Work, Sustained Growth and Environmental Integrity" , ILO, 2019.