Corporate Power and Influence in the World Bank

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Every year, the World Bank (Bank) channels US$ 18-20 billion to developing countries in the form of loans and grants with the ostensible aim of reducing poverty and promoting economic growth. The Bank always acts in tandem with its sibling agency, the International Monetary Fund (Fund), even in countries that no longer borrow from the Fund. Not all Bank financing and support goes to governments. A significant amount goes directly to the private sector, especially large corporations, in the form of loans, technical assistance and mitigation of investment risks.

BACKING THE RICH

In existence for over 60 years, the Bank has expanded from a single institution-the International Bank for Reconstruction and Development (IBRD)—to five institutions, each dealing with a particular area of operations. [1] These include financing and other supports for relief and rehabilitation, physical and institutional infrastructure in sectors such as energy, transportation, extractive industry and telecommunications, restructuring of key sectors such as health, education, water and agriculture to make them private sector and market friendly, private sector development, and mitigating investment-associated risks for private companies. Despite recent scandals, the Bank is a powerful institution. In most of its client countries, it is virtually the only doorway to access international trade, development finance and private investment capital. It derives its power and policy agendas from its wealthiest shareholders —governments that comprise the G-7 [2], who routinely use the Bank to secure lucrative trade and investment deals in developing countries for their respective transnational corporations (TNCs).

Corporate influence is manifested in and through the Bank in several ways. Most obvious are the supports extended to private corporations through three of its specialised institutions: the International Finance Corporation (IFC), Multilateral Investment Guarantee Agency (MIGA) and International Centre for the Settlement of Investment Disputes (ICSID).

The IFC is the private sector arm of the Bank and the world's largest multilateral source of equity and loan financing for private enterprises in developing countries. It claims to support economic development, employment and poverty reduction by promoting open, competitive and efficient markets and direct support for private companies in developing countries. The IFC has developed a range of financial tools and services to enable private companies to manage investment risks and broaden their access to capital and developing country markets. The Bank and IFC have also established the "Rapid Response knowledge initiative," which specializes in policy advice on business environment reforms and privatization policy in developing countries. The initiative maintains a cyber-service called "Private sector blog-a market approach to development thinking" to promote its pro-market, pro-corporate ideology. [3]

A closer look at IFC operations show that much of its support actually goes to large, well-funded corporations and not to small-scale, local entrepreneurs. Through the IFC, corporations get access to large, government-sponsored infrastructure and service delivery projects and investment opportunities that are relatively risk free. Local communities, on the other hand, have little voice and no benefits in these investments as social and environmental safeguards are increasingly overridden by corporate demands for profits.

MIGA provides some of the most important services to private corporations by mitigating the political risks of private investment in high risk, low income and conflict-affected countries. MIGA's forte is political or sovereign risk, which includes governmental actions that jeopardize corporate revenues. MIGA risk guarantees protect corporate investors against loss resulting from government expropriation of assets and breach of contract, war and civil disturbance including insurrection, coups d'état, revolution, sabotage, and terrorism. MIGA prides itself as a leader in the political risk insurance industry and collaborates with private and public insurers to "encourage private sector insurers into transactions they would not have otherwise undertaken." [4] MIGA's beneficiaries are generally TNCs in sectors such as water, energy, oil and gas, telecommunications, automobiles, agribusiness and luxury hospitality.

MIGA also provides "dispute mediation" services and in this, it is complemented by ICSID, which serves as a private, almost secret court to settle disputes between states and private investors. ICSID has been in the public spotlight recently because of a US$ 50 million lawsuit brought against the Bolivian Government by Bechtel and Aguas Del Tunari for cancellation of a water privatisation contract in the Bolivian town of Cochabamba. A massive, coordinated international campaign against Bechtel forced it to accept 30 cents as its settlement. But the case directed the world's attention to the Bank's system of closed door trade courts, the majority of which involve protecting the rights of corporate investors in crucial public interest sectors such as water, electricity, telecommunications, oil, natural gas and mining.

CORPORATE SUPPORT DISGUISED AS "DEVELOPMENT"

Less blatant, though more insidious and pervasive, are the pro-corporate policy prescriptions that accompany Bank financing for so called "development" projects and programmes through the IBRD and International Development Association (IDA). Especially notorious are Bank-Fund designed economic reform packages which seek to establish small, efficient and corporate friendly governments to rule over corporate friendly capitalist economies. Once called Structural Adjustment Programmes (SAPs) and then renamed "poverty reduction strategies," these reform packages are designed to open up the markets and economies of borrowing countries to foreign investors through trade and investment liberalisation, privatisation of public utilities, state marketing boards and state enterprises, and financial deregulation. Reforms also demand that cross subsidies for the poor, and protections for workers and domestic producers and enterprises be eliminated, and publicly financed social programmes—including those in health, education, water and sanitation-be drastically cut back.

Although the ostensible goal of the Bank's "development finance" is to alleviate poverty, increase employment and raise living standards by stimulating rapid economic growth, Bank projects and programmes deliver far greater benefits to private corporations, contractors and consulting firms than to the poor. The Bank's push for trade liberalisation coupled with the removal of government supports for domestic producers and enterprises provides foreign corporations unrestricted access to developing country markets in crucial sectors such as agriculture, services and industry. By insisting that borrowing countries shrink labour and environmental regulations and establish corporate friendly taxation and property regimes, the Bank virtually assures private investors a free ride at the cost of local communities, workers and environments.

The Bank's almost religious belief in commercialisation and privatisation has served corporations extremely well. Regardless of the problem or sector (water, electricity, agricultural marketing, health, education, etc.) the Bank demands that the government step back and the market step in. Privatisation includes a range of measures: from unbundling (or breaking up) operations in a public enterprise and outsourcing (or contracting out) the unbundled operations to eventual sale of the public enterprise either whole or in part. Included in the package are contracts for privately provided, high-end "technical assistance" and procurement of ancillary goods and services. Although the Bank insists that procurement and contracting are the responsibilities of the implementing agency [5] (usually a government department), privatised assets, and construction, consultancy and procurement contracts generally go to large corporations, contractors and consulting firms that are well versed with Bank rules for bidding and procurement.

The 'symbiosis' between the Bank and corporations is well demonstrated in the biotechnology and agrochemical industries. The Bank's agriculture policies have been practically written by corporations such as Monsanto, Aventis, Novartis and Dow. Even as the Bank expanded its rhetoric about environmental sustainability in the 1990s, its projects advocated increasing farmers' access to agrochemicals and genetically modified seeds. During this time, the Bank also entered into business partnerships with nearly all leading pesticide and biotechnology companies through a staff exchange programme that involved 189 corporations, governments, universities and international agencies. A marketing analyst from Aventis (now Bayer CropScience) spent nearly four years in the IBRD to develop IBRD's position on agricultural biotechnology and strategies to leverage financing through the IFC. Novartis' (now Syngenta) head of public affairs spent a year working on outreach strategies for the Bank's rural development unit. Bank officials placed in Novartis and Rhone Poulenc Agro (now part of Bayer) in the late 1990s assisted them with biotechnology regulatory issues and rural development partnerships. The Bank thus adjusted its agricultural strategies to satisfy leading biotechnology and agrochemical corporations which in turn gained access to public policy making in developing countries via Bank sponsorship. [6]

Pro-corporate thinking is deeply embedded in the Bank. Many of the Bank's presidents and senior staff come from the corporate sector and "market solutions" feature prominently in the Bank's strategies for addressing virtually any challenge whether deforestation, global warming or food and water scarcity. The Bank's development vision is a capitalist one in which the role of government is to create an "enabling environment" for the private (corporate) sector to flourish and for the market to sort out crucial issues of access and distribution. In large hydro-power projects for example, the Bank routinely assists host governments and private contractors in project preparation and mobilising project finance: it hires private consulting firms to work alongside government departments to design the project and implementing arrangements, mobilises project financing (through the IFC) and underwrites the loans (through MIGA or other partnering risk guarantors). The costs of environmental and social mitigation are left to government and society, and the terms of project financing and guarantees generally favour private companies over the larger public interest.

The Bank is proud of its support for corporations and private investors, as expressed on the MIGA website:

"Our presence in a potential investment can literally transform a"no-go"into a"go."We act as a potent deterrent against government actions that may adversely affect investments. And even if disputes do arise, our leverage with host governments frequently enables us to resolve differences to the mutual satisfaction of all parties.” [7]

For several decades now, the Bank has used development and poverty reduction as smokescreens to further corporate interests. It has used its position as preferred creditor and aid coordinator in developing countries to create opportunities for private corporations, contractors and consultants to profit from structural needs and crises in developing countries. Clearly, dismantling corporate power over our public goods, services and commons will also require dismantling the World Bank.

P.S.

* From Focus on Trade # 31, August 2007.

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Footnotes

[1] The Bank is constituted by five institutions which collectively form the World Bank Group: International Bank for Reconstruction and Development (IBRD), International Development Association (IDA), International Finance Corporation (IFC), Multilateral Investment Guarantee Agency (MIGA) and International Centre for the Settlement of Investment Disputes (ICSID). Information about all 5 institutions can be found in the World Bank website: www.worldbank.org

[2] The G-7 is made up of the United States, Canada, Britain, France, Italy, Germany and Japan.

[3] http://psdblog.worldbank.org/

[4] http://www.miga.org/sitelevel2/level2.cfm?id=1069

[5] http://web.worldbank.org/WBSITE/EXTERNAL/PROJECTS/PROCUREMENT/0,,contentMDK:20060540~menuPK:84282~pagePK:84269~piPK:60001558~theSitePK:84266,00.html

[6] The World Bank and the “Next Green Revolution”: Devastating IMF/World Bank sponsored environmental projects in the name of progress. Brian Tokar. Green Tide. Z Magazine online, April 2004, Volume 17, Number 4. http://zmagsite.zmag.org/Apr2004/tokar0404.html On ESSF: The World Bank and the “Next Green Revolution”

[7] http://www.miga.org/sitelevel2/level2.cfm?id=1069