



World Bank's Private Sector Agenda

By Andrea Durbin, Friends of the Earth

In the early 1990s, the World Bank underwent a mid-life crisis. During this period, private capital flows to emerging market economies in the developing world increased significantly, surpassing the amount of money available through official development assistance. These private capital flows grew from \$42 billion in 1990 to \$256 billion in 1997, while official development assistance through the World Bank and other government aid programs declined by nearly a quarter. Through structural adjustment lending in the 1980s and heightened support for private sector development in the 1990s, the World Bank has contributed to this changing trend. Consistent with U.S. political interests to promote a private sector agenda, the World Bank has accentuated the private sector in its operations and highlighted financial support for the private sector in its own agenda in the last few years. Contending that one way to alleviate poverty and improve the living standards of the poor in the developing world is to promote private sector development, the World Bank announced in its 1995 annual report that the "private sector is now a recognized area of emphasis."

Key Points

- The World Bank announced in its 1995 annual report that the "private sector is now a recognized area of emphasis."
- The bank will often require a government to cut domestic spending, open up markets for foreign investment, expand exports, and liberalize trade policies to promote a favorable business climate for the private sector.
- The bank will acknowledge that these conditions have not delivered the economic growth they expected and that structural adjustment can have serious and negative impacts on the poor, women, and the environment.

The World Bank promotes its private sector agenda in several ways. One way is through structural adjustment lending that promotes privatization, investment liberalization, and export-oriented growth. The bank devotes significant resources to advise governments on how to privatize. Through its structural adjustment lending, the bank will often require a government to cut domestic spending, open up markets for foreign investment, expand exports, and liberalize trade policies. All of these conditions promote a favorable business climate for the private sector, particularly foreign businesses investing in developing countries. The

World Bank, and its sister institution the IMF, have long been criticized by NGOs for their rigid application of these conditionalities on governments. Albeit reluctantly, the bank will acknowledge that these conditions have not delivered the economic growth they

expected and that structural adjustment can have serious and negative impacts on the poor, women, and the environment.

Beyond establishing a good business climate through structural adjustment lending, the World Bank promotes its private sector agenda by financing private enterprises. Two of its lesser known agencies, the International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA), exclusively finance and underwrite private companies. These agencies are very similar to the U.S. Overseas Private Investment Corporation, and they support a similar agenda. The IFC provides project loans to companies, makes equity investments in private projects, and mobilizes capital in the private financial markets for the private sector. The IFC acts as a catalyst for private investment because its participation enhances investor confidence and attracts other financiers to a deal. In 1998, the IFC funded \$2.7 billion in new investments—a record level of new commitments—and mobilized another \$2.4 billion from other private banks. In the last five years, the IFC's lending has increased by an average of 10% a year, while the World Bank's lending to governments has remained steady.

In 1988, the World Bank added its newest agency, MIGA, to offer political risk insurance for private investors to cover expropriation, civil disturbance, or currency inconvertibility. MIGA's stated purpose is to help developing countries attract foreign investment by providing risk insurance. Political risk insurance is in increasing demand for investment in emerging markets, having more than doubled since 1990 and reaching \$38.9 billion in 1997. Companies want to reduce their risks and losses or at least have these losses covered.

As with the IFC, the demand for MIGA's services is increasing. In 1998, MIGA approved 55 guarantee contracts totaling \$830.9 million in coverage, bringing the total coverage issued in the decade since its founding to \$4.2 billion. This year, MIGA asked its shareholders, donor governments like the United States and other G-7 nations, to increase their contributions. To demonstrate its overall commitment to providing political risk insurance for companies, the World Bank allocated \$150 million of its profits to MIGA for political risk insurance—money that could have been used for grants to poorer countries for development.

One of the problems with the World Bank's support of the private sector is that such lending does not fulfill the bank's overall mission: to alleviate poverty and promote environmentally sustainable development. A review of the World Bank's private sector portfolio raises serious questions about whether or not the bank is successfully delivering on its developmental objectives. The IFC and MIGA are largely responsive to the needs of business rather than human needs. The bulk of their loans go to projects that involve natural resource extraction and polluting industrial development or that emphasize roads over mass transit and new energy development over renewable energy and conservation. The largest IFC investments went to the financial services sector (28%), infrastructure such as roads and power projects (24%), and mining/oil and gas development (15%) in 1998. In the same period, MIGA insured the manufacturing industry (20%), infrastructure (19%), and mining/oil and gas development (17%).

An example of a typical private sector investment that underscores the negligible development impact the World Bank proffers is a large oil extraction project in the West African countries of Chad and Cameroon. The sponsors for this oil project—currently under consideration for bank funding—are three of the largest and most profitable oil companies in the world: Exxon, Shell, and the French company, Elf. The project will open up oil reserves in Chad and build a 600-mile-long pipeline through tropical rainforest areas and indigenous communities to export the oil to Europe.

The World Bank argues that the developmental purpose of the project is to increase GDP for the governments of Chad and Cameroon, minority owners in the project. But environmental and development organizations challenge the assumptions that oil profits benefit local populations, given the experience of oil development in other African nations. Oil development rarely translates into either better living conditions for local communities or more social spending. Most of the profits go to the oil companies and the ruling elite, where corruption problems are common. According to Transparency International, Cameroon was rated the most corrupt government in the world in a survey conducted in 1998. These kinds of misguided projects are generally supported by the U.S. government.

The Chad-Cameroon pipeline project exemplifies a development agenda that lacks clear environmental and social benefits for the local population. It is also an example of how the World Bank promotes the interests of large, multinational corporations over the interests of small- and medium-sized businesses. The bank supports some of the largest Fortune 500 companies, like Exxon, Shell, Mitsubishi, Coca-Cola, and Boeing. All of these companies could easily raise financial support from private financial markets rather than tap into limited development dollars.

This misallocation of funds is due to the World Bank's failure to distinguish between general support for

the private sector and a selective strategy emphasizing investment in private companies, such as small- to medium-sized indigenous firms supporting environmentally sustainable projects. The latter can truly yield development gains. Domestically owned companies are often (though not always) a better investment for development, because they are locally owned, typically create more jobs for local communities, and usually reinvest profits in the local community.

Not only has the World Bank's private sector agenda missed the mark in promoting a sustainable development agenda, it is also problematic because the bank has set lower standards for its lending to the private sector than to governments. Until recently, the IFC and MIGA did not follow the World Bank's extensive environmental and social policies, designed over the past decade at the behest of NGOs and donor governments, mainly the United States. After pressure from the U.S. government, U.S. Congress, and NGOs, the IFC released a comprehensive set of policies that it now requires of its corporate clients. There are still gaps in these policies, but at least the IFC is making progress toward closing the gaps. MIGA, however, has yet to clarify which environmental and social policies it requires of its business clients.

Still lacking is uniformity across the World Bank's different arms on transparency and accountability issues, which the U.S. government raises often. The World Bank has two different information disclosure policies: one for government borrowers and a weaker one for private clients that borrow from the IFC. There is no disclosure policy for MIGA. Overall the public has less information about the

bank's private sector investments, and the information is available later in the process than it is with regard to government loans.

To ensure accountability, the World Bank established an independent inspection panel to respond to complaints by communities directly affected by World Bank projects. The problem is that the inspection panel only applies to the World Bank's government lending, creating another double standard at the bank. Congress has urged the World Bank to expand the inspection panel to apply to the IFC and MIGA operations, but to date, no progress has been made. The lack of an effective accountability mechanism at the IFC and MIGA means that there are currently no checks on the kinds of projects and companies these agencies support with development assistance.

Key Problems

- The World Bank's support of the private sector does not fulfill the bank's overall mission: to alleviate poverty and promote environmentally sustainable development.
 - The World Bank promotes the interests of large, multinational corporations over the interests of small- and medium-sized businesses.
 - The World Bank's private sector agenda missed is problematic because the bank has set lower standards for its lending to the private sector than to governments.
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If the World Bank sees the private sector as a partner and contributor to its overall development approach, then it must clarify the development goals it hopes to achieve with private sector investment and must create measurable standards by which the developmental impact can be judged. Using such a "development screen," modeled on the experience of the socially

Key Recommendations

- The World Bank must clarify the development goals it hopes to achieve with private sector investment and must create measurable standards by which the developmental impact can be judged.
- The World Bank should finance private sector efforts that endorse renewable and alternative forms of energy, sustainable agriculture, and water supply systems that emphasize conservation first.
- The World Bank should eradicate all double standards and special treatment for the private sector. If the private sector stands to benefit from the use of public funds, then it should meet the same standards that government borrowers have to follow.

responsible investment community, would enable the World Bank to determine which type of projects do or do not meet its criteria. Unlike the bank's lending program to governments, which collaborates with governments to develop projects jointly, the bank's private arms are in large part responding to the private sector's agenda and to corporate interests. But what the private sector wants to do is not always consistent with the development priorities of a country.

If the World Bank were to establish a development screen, it could screen in projects that match a country's development priorities and screen out projects that don't. That way, the bank could assess projects proposed by the

private sector to determine their development impact and to decide whether they are worth financing from a developmental point of view. As the ultimate goal is to support a private sector agenda that promotes environmentally and socially sustainable development, the World Bank should finance private sector efforts that endorse renewable and alternative forms of energy, sustainable agriculture, and water supply systems that emphasize conservation first.

When the World Bank does promote its development agenda through the private sector, it should do so in a way that takes into account broader social and environmental objectives. For example, in its

promotion of privatization, it should routinely incorporate an analysis of the impacts of privatization on women, workers, the poor, and the environment. Each of these issues should be considered and weighed equally with other issues, like expected economic output. The goal of privatization should be broader than promoting economic efficiency; it should include broadening distribution and access to resources, expanding ownership, and protecting the environment. In other words, a fundamental shift in the World Bank's own thinking and approach is required.

The U.S. should continue to address transparency and accountability problems at the World Bank. In this regard, Congress has tried to urge the IFC to strengthen its information policy by including language in the foreign assistance appropriations bill that urges the IFC to adopt the Pelosi amendment, which requires the release of an environmental impact assessment no later than 120 days before the World Bank makes a final decision to finance a project. By having a minimum of 120 days deliberative process, the public and affected communities are afforded information in a timely manner and can provide input into the process. The bank already complies with the Pelosi amendment in the case of government loans, but it holds the private sector to a lower standard of information disclosure. The U.S. should insist that the bank eliminate this double standard.

In fact, the World Bank should eradicate all double standards and special treatment for the private sector. If the private sector stands to benefit from the use of public funds, then it should meet the same standards that government borrowers have to follow. Closing this gap would mean applying the bank's environmental and social policies to the IFC and MIGA, applying the bank's stronger information disclosure policy to these agencies, and giving the bank's inspection panel jurisdiction to review private sector investments. The World Bank's agenda should still be to promote the interests of the public and, foremost, the interests of the poor.

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