Episode 160: Delusions of development: Pro-market forces at work in the do-good industry

VOICEOVER
Welcome to Up Close, the research talk show from the University of Melbourne, Australia.

ELISABETH LOPEZ
I’m Elisabeth Lopez, thanks for joining us. At the turn of the twenty first century, the world’s governments pledged to halve poverty by the year 2015, a commitment known as the Millennium Development Goals. Eleven years on, government and non-government organisations are increasingly joining forces with big business on infrastructure projects like wind farms and gas pipelines, and microfinance and mobile services for unbanked populations. In this episode of Up Close, we examine the tangled web of interest in this growing category of development aid. Our guest, Toby Carroll, is a political economy specialist and he casts a critical eye on the World Bank’s International Finance Corporation which is driving much of this activity. Toby Carroll is a Senior Research Fellow with the Centre for Asia and Globalisation in the Lee Kuan Yew School of Public Policy at the National University of Singapore. He is the author of Delusions of Development: The World Bank and the post-Washington Consensus in Southeast Asia. Toby is in Melbourne as a guest of the University of Melbourne’s Asia Institute.

Thanks for joining us Toby.

TOBY CARROLL
Thanks Liz.

ELISABETH LOPEZ
Toby, the proponents of what’s called cross sector collaboration say it’s a win, win for all the parties involved; impoverished populations get to benefit from the ability of big business to get major projects done, the sort of projects that governments and NGOs don’t really have the capacity or expertise for and business gets a helping hand tapping emerging markets while doing good. You, however, call this phenomenon the financialisation of development, a process akin to making the world
safe for international capital, and you argue that we need to look at what was happening in the sector in the 1990s to understand what's really going on now. So, Toby, can you take us back there to the not so golden age of structural adjustment?

TOBY CARROLL
Sure, I think it's actually important to go back even a little further, back to the 1980s and structural adjustment, that you just mentioned, was basically a process by which the World Bank and the International Monetary Fund, its sort of sister organisation, were going into the under developed world and promoting ideas based around minimising the State's role in development and in their economies. The prescriptions that were associated with structural adjustment were the fairly basic familiar ones that a lot of people would now be familiar with. They were things like privatisation, deregulation, liberalisation, you know, pursuing fiscal austerity, reducing government debt and so forth, often at the expense of our social services. These sorts of policies and prescriptions where woven into different conditional packages pushed by the IMF and the World Bank and they copped a lot of flak for this.

ELISABETH LOPEZ
Because they basically had governments up against a wall didn't they? Governments that may have wanted to boost health and education outcomes and infant mortality, stuff like that, was going by the wayside?

TOBY CARROLL
That's correct and a lot of these governments were heavily in debt and required financing and the World Bank and the IMF were the institutions that were going to provide that financing, you know, given that no one else would. That financing came tied with certain strings and those strings were implementing some of the policies that I just mentioned before. You know, not implementing this stuff had quite severe repercussions, but implementing it also had severe repercussions. You see that by the late 1980s, early 1990s, certainly in activist circles and NGO circles, the results of these programs were more than apparent and were increasingly being highlighted on the global stage. You have a large amount of pressure being brought to bear on both the IMF and the World Bank from civil society generally. That is directly related to the fallout over structural adjustment and the social repercussions of structural adjustment. It's also related to large scale infrastructure projects that the World Bank was involved in. Big dams were notorious, the relocation of populations living in areas where infrastructure projects were being rolled out, funded by the World Bank. There were issues over consultation and participation and lack thereof in those projects. Also, issues over environmental repercussions of particular bank funded projects and so forth. All of this stuff comes together in the late 80s, early 90s to really bring into question the legitimacy of an organisation like the World Bank and the IMF. Now, at the same time, the Bank is cognisant of this. You know, there are people in the bank who are progressive types who are starting
to rise within the organisation. A lot of these people are actually sort of anthropologists and so forth who are brought in to go out and consult populations on projects and try and ameliorate some of the worst effects of these projects. You start to see this increase in participatory processes, you start to see consultation being much more prominent within bank projects. And you also see the deployment of environmental and social safeguards generally.

But, when the Russian transition happens in 1989, 1990, you see the death throes basically of social adjustment. I mean it?s the final burst of simple measures like privatisation and so forth which results in massive escalation in poverty in Russia. So the death sentence for structural adjustment is issued basically.

Now, what results, is not a wholesale transformation in development practice, but business as usual couldn?t go on, there had to be the incorporation of these processes that I mentioned before. Going out and consulting populations about particular projects and, interestingly enough, after structural adjustment has started to try to downsize the State?s role in development basically, the State is pulled back in.

So you start seeing people like Jospeh Stiglitz and Douglas North, quite prominent economists, who start saying look, institutions matter to markets. If you want to have the best results from markets you have to have institutions there to offset what they call transactions costs and information asymmetry. Basically, what economists see as impediments to efficient markets.

ELISABETH LOPEZ
So into concerns about good governance?

TOBY CARROLL
Exactly.

ELISABETH LOPEZ
And corruption?

TOBY CARROLL
Exactly, so you see a massive scale up in the focus on good governance which essentially means having in place a particular set of regulatory institutions that govern over market activity in a clean and transparent manner, holding newly privatised or partly privatised utilities to account for populations and so forth that are still operating along market lines.

ELISABETH LOPEZ
When the focus on good governance got translated into practice, was there much involvement from civil society or was it a top down kind of thing coming from the World Bank?

TOBY CARROLL
It?s actually both. Civil society is increasingly engaged by the Bank. The Bank is not only reaching out to civil society, it?s actually bringing civil society inside. Both
into its operations in Washington, where it's headquartered, but also into its country offices which start to become a lot more prominent. You see a, sort of, decentralising of the bank during this period and staff are sent out to the field. And many of those staff have to really ramp up their connections with civil society, getting them involved in particular projects and programs.
The big push on civil society engagement is partly a response to the sort of top down and very austere process of structural adjustment, but the interesting thing I think, is that even though you had quite progressive NGO people coming into the organisation, you started to see progressive NGOs relating to the bank in a more positive light.
The question of whether they were actually being co-opted into what the Bank was wanting to do anyway and whether the Bank was using this strategy of bringing civil society into legitimatise its operations is a very real one. I think that you do see in this period a transformation of civil society. There's a sort of split that goes on. Some NGOs, and a lot of them are the more sort of global non-governmental organisations that most people would be familiar with, they start to go through a sort of professionalising process themselves. Their operations often scale up in line with the Bank and they are brought into the Bank's operations in a way that other sections of civil society are extremely uncomfortable with.

ELISABETH LOPEZ
This is Up Close, coming to you from the University of Melbourne, Australia. I'm Elisabeth Lopez and we're speaking to Toby Carroll from the National University of Singapore about the financialisation of development and its implications.
So, Toby, tell us about the manifestations of this split within NGOs. What were, I suppose, the opposing camps on this?

TOBY CARROLL
They were varied. There are all sorts of NGOs out there, of course, environmental NGOs, NGOs that are specifically interested in health care, that are interested in social services more generally, the broad based human rights NGOs and so forth. A lot of them related to the bank in quite dramatically different ways. Some of them were quite adamant that there is no way you work with the World Bank. They had gone through structural adjustment, they knew it well and they knew, also, that the underlying ideology of the bank was not one that they could be part of.

ELISABETH LOPEZ
The leopard would never change its spots?

TOBY CARROLL
The leopard would never change its spots and the superficial changes that they identified were worrying in so far as many NGOs interpreted this as a new strategy to basically implement what was problematically implemented before.

ELISABETH LOPEZ
Let's say we've consulted with local populations and will tick that box and, yes, move on and do what we were always doing?
TOBY CARROLL
Exactly. I spent quite a lot of time out in the field talking to lots of NGOs in Southeast Asia about their experiences with consultation with the Bank. You would often find the NGOs that were adamant about not working with the Bank would say look we still go along to World Bank consultation processes, we still go along to see when the Bank releases its country strategies and so forth, but some of us are actually thinking about stopping doing that. Because, what happens is, when we just attend these things, we get listed in their reports, you know the reports that the bank often has to file to talk about how a particular consultation process went. In the back it will say Freedom from Debt Coalition in the Philippines attended our consultation meeting and the actual in no way reflected anything that these people said, which was often quite dramatic. It would in no way reflect what it is that these organisations were representing which were things like cancelling multilateral debt, for example or wanting to improve the rights of labourers or other marginalised groups. So, there was that split within civil society.

But at the same time, there was the other side of things where a lot of NGOs do quite well out of this. In some circumstances both domestic and global NGOs wanted to expand, especially domestic NGOs, wanted more secure sources of funding for their operations, often they had to rely on foundations giving money and that was always quite tenuous.

ELISABETH LOPEZ
Very patchy and uncertain.

TOBY CARROLL
Exactly, so suddenly you have the option of helping the bank implement its projects and programs.

ELISABETH LOPEZ
As you?ve observed, the legitimacy of the bank did come into question with a lot of people calling for it to be scrapped and let?s start anew, but I suppose those NGOs just thought well, it?s here to stay, let?s just see what we can get out of this, that dovetails with what we want to do.

TOBY CARROLL
That?s right, there was a definite pragmatism associated with all of this.

ELISABETH LOPEZ
And I suppose some of the thinking might have been well this is an opportunity to influence what the World Bank does and that?s a pretty mammoth task, but, we need to have a shot?

TOBY CARROLL
That position is actually a really important one to pick up on because it wasn?t only civil society that were thinking like that. There were actually elements within the World Bank that were thinking like that.

I mentioned before some of these progressive minded anthropologists and
sociologists increasingly coming into the bank to help sort of fix up the mistakes that were made before and some of them were designers of very large scale programs based around their ideas on community driven development, bottom up development and so forth. They were very determined to change the bank from the inside.

ELISABETH LOPEZ
So, what was happening with business at this time? Business, I guess, has always collaborated with NGOs to some extent, especially on World Bank projects. What sort of overtures were being made at that time and how were they different from what happened before?

TOBY CARROLL
Well I think over the last decade you?ve seen a massive transformation in development practice related to an increasing focus on the private sector?s role within development practice. If you think of structural adjustment and some of the participatory development elements that I was talking about before. Structural adjustment is phase one, this participatory phase and, you know, the phase that brings in an increased role for the State as a regulator and so forth, the Bank reaching out to civil society. This what?s called a holistic approach to development, as phase two.
Those two phases set in place an arrangement whereby the market is increasingly seen as the most important thing to focus on in terms of improving development outcomes. So, already you see the terrain being improved for business operations in the underdeveloped world. How do you increase market activity, how do you contain the State to just being a regulatory State, you know, as a body of organisations that oversees market activity?
So, the pro-private sector element was already there and you could see that the business, especially the multinational corporations, were starting to be mindful of that and there were connections at the time that were emerging between multinational corporations and the World Bank, in particular, about what sort of regulatory institutions they need or that they would like to have in place to invest in a particular country.
So, there?s this emerging push over the last 10 years that?s centred around how do you attract capital, how do you make sure that businesses are confident that they can invest in a country and not have their operations interfered with?

ELISABETH LOPEZ
So, Toby, in terms of creating an enabling environment for business, you start to see the advent of things like worldwide rankings on indicators like corruption and transparency and how many days it takes to set up a business in a particular place. Can you tell us a bit more about those and how they connect with, I suppose, a development aid agenda?

TOBY CARROLL
Sure, it?s an important issue because the benchmarking of countries in their adoption of what is now called an enabling environment, which is essentially an environment that is deemed conducive to private sector activity, we are talking about
labour flexibility, we are talking about ease of starting businesses, we are talking about low and simplified taxation regimes conducive to business and so forth. That is now a big push within development practice. One of the most important examples of how countries are now being benchmarked in their adoption, or otherwise, of an enabling environment for private sector activity is, perhaps, the World Bank and International Finance Corporation doing Business Report Series.

ELISABETH LOPEZ
Toby, what is the relationship between the World Bank and the International Finance Corporation? How separate are they, how much do their agendas dovetail?

TOBY CARROLL
Sure. When we talk about the World Bank we are actually talking about the World Bank Group, which is a group of organisations, five key ones in particular. And the International Finance Corporation has been around for a long time, since the fifties actually, but has become a much more prominent member of the group in recent times.
The International Finance Corporation is the World Bank?s private sector arm and where the core elements of the World Bank used to lend to government, give technical advice to government and so forth, the International Finance Corporation is specifically orientated towards the private sector.

ELISABETH LOPEZ
So no anthropologists or sociologists there?

TOBY CARROLL
Well, they still have to fall in line with a lot of the environmental and social safeguards, so you will see these figures involved in IFC operations. The interesting thing, of course, about the International Finance Corporation staff is that you often come across lots of former investment bankers and so forth, people from Citigroup or Lehman Brothers or even within Southeast Asia, some of the big regional banks like ANZ Bank.
The International Finance Corporation, unlike the traditional core of the World Bank, works with the private sector and with government simultaneously. And it works with domestic private sector entities and it also works with foreign entities, multinational corporations and others that want to invest in the underdeveloped world. It is crucial in terms of providing loans to private sector entities, it provides technical assistance to government, it also provides technical assistance to the private sector. So, say for example, if you have microfinance NGOs that are interested in a more secure financial footing, the IFC can come in and tell them how to become more professional, how to become more sustainable in terms of their financial side.

ELISABETH LOPEZ
But there?s a cost to that, I guess, sometimes in terms of their community or social mission being diluted?

TOBY CARROLL
Yeah, I mean those are very real concerns. Look, it has a very constant set of prescriptions. In terms of reforming utilities and so forth, the IFC relentlessly, along with their traditional arms of the World Bank, will relentlessly push public private partnerships and, in promoting public private partnerships, the IFC will not only, through technical assistance, advise governments to pursue public private partnerships in a variety of sectors, in water, energy and so forth, it will actually lend to companies that might take on board the responsibility for a particular utility. Even more than lending to that company, the IFC will take an equity position within the company and the interesting thing there is, I mean there are serious issues of conflict of interest actually, but in terms of if you think through the conditionality that used to be associated with structural adjustment i.e. that loans were made conditional on governments doing certain things, the IFC sometimes places those conditions upon companies involved, in say, public private partnerships saying that we will take an equity position within your company, but that position will be conditional on you, say, listing on a stock exchange within 12 months.

ELISABETH LOPEZ
And so there? is a very different discipline associated with being accountable to shareholders as opposed to being accountable to society and, often there? s a lot of conflict there, as we saw what happened with Manila Water?

TOBY CARROLL
Yeah, the Manila Water story is a really interesting one. Manila? s water services were previously handled by the State, there were all sorts of issues in terms of water quality, pressure, water loss, lack of access, there were huge issues. The governments during the mid 1990s in the Philippines were trying to think through how you can resolve these issues. The Ramos administration in the Philippines was quite predisposed to market alternatives in terms of fixing some of these issues. They needed technical assistance in pursuing pro-market agenda for reforming utilities. They were very adamant about reaching out to organisations like the International Finance Corporation and the Asian Development Bank.

ELISABETH LOPEZ
Did they have the capacity or the money to seek out an alternative that wouldn?t involve the World Bank?

TOBY CARROLL
No, I mean that? s the interesting thing. Governments like the government in the Philippines had huge debt problems. They had a lot of multilateral debt, so they racked up debt from the World Bank and others previously trying to fix some of these issues. So the option set was heavily constrained. The IFC, for a fee, came in and advised the Government how they should go about fixing Manila? s water. The proposal, in the end, was for a public private partnership. There was originally a proposal for a full privatisation of Manila? s water services, but that was deemed politically unworkable. The backlash from people would be way too dramatic, given the fallout from privatisations elsewhere.

ELISABETH LOPEZ
Because it’s a natural monopoly and access to water is a basic human right?

TOBY CARROLL

Well, a lot of citizens in the underdeveloped world are more than aware of examples whereby leaks have captured the benefits of these sorts of processes before. Civil society has been very active on privatisation issues all throughout the underdeveloped world, but in places like the Philippines, there is a very active civil society and on issues like privatisation, they are extremely knowledgeable and get their message out there.

So, full privatisation in the Manila situation, was deemed politically impossible. A public private partnership was proposed. Manila’s water services were divided up into what was called the Paris Model, two separate concessions, an eastern or west zone and there was a call for companies to put in a price at which they could supply water for and so forth.

The concessions were awarded. The result was that two different groups won the concessions. Both were made up of combinations of very famous family groups in the Philippines, the Ayala’s and the Lopez’s, but they were also tied up with some of the big multinational water companies and engineering companies. So you start seeing this interesting connection between domestic elites and multinational companies in the reordering of utility provision in Manila.

The story gets kind of complicated in so far as one of the concessions basically fails, people are critical of the regulator not doing its job. People are also critical of the Government not doing it what it should do to pull the concession area into line in terms of fulfilling the contract and so forth. So that’s a disaster story in one concession area.

The other concession area is deemed as quite a successful concession. It expands coverage and so forth and IFC identifies this group as one of the rare examples of a successful water privatisation and, therefore, single it out for special attention in terms of lending and so forth. You had high profile privatisation of water disasters in Latin America and elsewhere, yet this was increasingly being pushed as the default policy prescription. You need to have a success story or two to identify and one of the concessions in Manila was identified as that.

In identifying that concession as a success story, IFC made loans to the company, the Manila Water Company. They also took an equity stake in that company, and they made taking an equity stake in that company conditional upon listing on a stock exchange. So you can see this sort of progressive privatisation of utilities over time. You go from a State run utility to pubic private partnership, but you don’t have publicly listed companies involved so ownership is not defrayed across a stock exchange. Then you move to this deeper marketised arrangement whereby you are not only concerned about how citizens have access to water, how regulators are satisfied in your fulfilment of the terms of the contract, you also have to worry about what shareholders, spread all over the place, think about what it is you are doing.

ELISABETH LOPEZ

Stakeholder creep?

TOBY CARROLL
ELISABETH LOPEZ
This is Up Close, coming to you from the University of Melbourne, Australia. I’m Elisabeth Lopez and we’re speaking to Toby Carroll from the National University of Singapore about the financialisation of development and its implications. So, Toby, a lot of proponents of these sorts of collaborations argue that IFC sponsored projects, say with the likes of BP in frontier or emerging markets, actually make a positive impact in terms of taking some power away from authoritarian regimes and dealing directly with people and populations on projects that are of a wide social benefit. What’s your response to that?

TOBY CARROLL
Well, there’s certainly that position out there. Often when I go around and talk about these things, it’s often the first question in the room. But in a lot of cases that I’ve looked at, that’s not the case. It’s not that simple a story. It is true that the employment of environmental social safeguards by the International Finance Corporation has requirements for it being involved in a particular program or project. It means that, once again, populations are consulted, you have to go out and be sensitive to the areas in which particular infrastructure projects are going to happen, all sorts of studies have to take place before a particular project can go ahead and, similarly, before the IFC can be involved in it. That is an additional step that, in many cases in the past, wasn’t there. But the story of broad based positive results for populations stemming from this sort of approach, I think is not that obvious. In many cases, especially when you have the International Finance Corporation working in environments where there are authoritarian regimes in place, who are able very easily to capture the benefits from a single infrastructure project, or a serious of activities that stem from an infrastructure project, the story gets complicated.

In the case of, say, the BTC Pipeline, which is a pipeline that runs from Baku in Azerbaijan to Ceyhan and the Mediterranean in Turkey, this is the story I think. You have the likes of the International Finance Corporation and the European Bank for Reconstruction and Development coming together to basically put money into a particular project that BP leads, the pipeline project, which is connected to the exploitation of particular oilfields in the Caspian. And BP, having experienced complications in its operations in Colombia and different places in the not too distant past, was mindful that to avoid some of the flak from civil society that it had received in the past and that others had received quite prominently, it had to make sure that it covered itself and it had to make sure that certain safeguards were applied if it was to have some of its partners in the project receive funding from some of the big international sources of capital. The IFC being involved meant that those safeguards were applied and that certain entities could then more easily invest in a project like the BTC Pipeline. Now, when the BTC Pipeline was turned on in 2005, I think, it gave Azerbaijan the highest GDP growth of anywhere in the world. The revenues from that were massive. This was filtering into a rather pernicious regime that was known for human rights abuses, stomping on civil society and so forth.
ELISABETH LOPEZ
And now they had so much more money to do that with?

TOBY CARROLL
Yeah. The difficulties stemming from the project sort of broadly relate to concerns within civil society about how the money derived from this project being switched on is being used. In particular, some civil society groups within Azerbaijan have grave concerns over the way in which particular networks close to the State were able to capture, through construction, other activities, rents essentially from these revenues from oil. Inflated construction prices were the basic concern that many civil society people had in Azerbaijan. But you also see Azerbaijan accruing money which it then goes out and buys military hardware with.

This is an issue because of the dispute in Nagorno-Karabach. Organisations like the International Crisis Group, which identified the dispute with Armenia in Nagorno-Karabach as one of the real global hotspots, were concerned that the acquiring of this hardware signalled the State in Azerbaijan had an interest in redressing its territorial losses.

ELISABETH LOPEZ
What can NGOs and donor governments learn from these experiences? [Are] Large scale collaborations with business inevitably tainted NGOs and governments always at an informational disadvantage? Or does it just mean a question of choosing very carefully the involvement?

TOBY CARROLL
Look, this stuff is becoming the main game in development practice. Governments that are short of money in the underdeveloped world are eager to have their utility situations improved, they are eager to have domestic businesses to have access to finance and so forth. In the industrialised countries which have, you know, in the past had to replenish the World Bank from time to time in terms of its soft lending window and so forth, these governments are worried about aid budgets and whatever.

The work of the International Finance Corporation is quite an attractive alternative in so far as it operates on long market lines for profit, so you will see an expansion of this stuff. My real concern is that this is increasingly becoming normalised as what constitutes development. Just fostering market activity using these means is increasingly what is being discussed as development and I actually don’t think it is. If you think about development as relating to substantive and sustainable improvement in material conditions, in many cases you can’t easily correlate that with what is going on here. In some cases, yes, there are winners. There are winners within the underdeveloped world that pick up the benefits of this approach. Businesses well placed to capture the new opportunities that can be realised from the involvement of International Finance Corporation, that are able to team up with multinational corporations and have a big shot at, say, capturing a utility or something similar. But, at the lower level, the picture in terms of how this stuff really supports people is more complicated.

Now, the IFC would counter that well one of the big pushes in its portfolio is working
through financial intermediaries, working through banks and microfinance organisations to get money out to people, which is part of this. But we should also remember that that money is going to people who are incredibly poor and it often just means that they are able to borrow $30 to buy a mobile phone. In certain circles people will say oh well you are creating a telecommunications micro-entrepreneur. But, to my mind, that’s not development. It’s not how industrialised countries developed, even if you think of one of the rare post World War II development stories like Korea, Korea didn’t develop through microfinance and these sorts of mechanisms.

Understanding a story like Korea is a more complicated political and historical undertaking and it requires you to think through things like the Cold War, large scale injections of capital, technology transfer from the likes of Japan and so forth. That’s how development has happened there, but in this instance I think there is an obfuscating process going on. This sort of work detracts from unpacking the politics of development, why it is that some people actually experience an improvement in their lives or don’t experience an improvement in their lives. I think it’s quite dangerous that this approach gets normalised as the default position. And make no mistake, that’s what’s happening.

I was talking to a United Nations person a few weeks ago who works on agricultural food security and, typically the UN is one of the more sort of progressive multilateral entities, and I was quite surprised because on the one hand this person was very concerned about things like food crises and food prices and so forth, at the same time, a lot of the solutions that this person was talking through were how do we get stuff, how do we get this pro-private sector approach that the International Finance Corporation is really driving to work for us on food security? Even at those levels, in those realms, it’s becoming the default position.

ELISABETH LOPEZ
Toby Carroll, thanks very much for coming in.

TOBY CARROLL
Thank you.

ELISABETH LOPEZ
We’ve been speaking with Toby Carroll, Senior Research Fellow at the Centre for Asia and Globalisation at the Lee Kuan Yew School of Public Policy at the National University of Singapore. Relevant links, a full transcript and more info on this episode can be found at our website at upclose.unimelb.edu.au. Up Close is a production of the University of Melbourne, Australia. This episode was recorded on 25 August 2011. Our producers were Kelvin Param and Eric Van Bemmel. Audio engineering by Gavin Nebauer. Up Close is created by Eric Van Bemmel and Kelvin Param. I’m Elisabeth Lopez. Until next time, goodbye.

VOICEOVER
You’ve been listening to Up Close, we are also on Twitter and Facebook. For more