

Does the World Bank's action mitigate or exacerbate the global pandemic's impact?

A atuação do Banco Mundial ameniza ou piora o impacto da pandemia global?

¿La actuación del Banco Mundial ameniza o empeora el impacto de la pandemia global?

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In addition to overburdening and in some cases leading to the collapse of national health systems, the COVID-19 pandemic has exacerbated the effects of the economic crisis that struck in 2008 (and has still not been resolved), launching the global economy into the deepest recession since World War II, according to forecasts by the World Bank.

The wealthier countries quickly announced high individual amounts to protect their own economies. In July 2020, leaders of the European Union agreed to earmark EUR 750 billion for the region's relief fund, of which 390 billion as non-reimbursable subsidies and the remaining 360 billion as loans ¹. In late March, the United States Congress passed an unprecedented economic stimulus package of more than USD 2 trillion (the equivalent of 10% of that country's GDP) ². Four months later, the U.S. Congress is discussing a new package, and Republican senators are proposing more than a USD 1 trillion ³.

Meanwhile, low and middle-income countries are dealing with the burden of COVID-19 under worse conditions and handling problems that are partially different, given the peripheral and dependent nature of their economies. For example, according to the International Monetary Fund (IMF), soon after the onset of the pandemic there was a capital flight of more than USD 100 billion from the emerging economies, a movement that led to the hiring of new debt amounting to USD 77 billion in April and May 2020, of which some USD 25 billion came from emergency IMF loans ^{4,5}. The World Bank, in turn, estimates that remittances by immigrants to their families in low and middle-income countries will fall by 20%, representing the loss of a vital flow of income for millions of poor families ⁶.

During the G20 meeting on March 23, 2020, the World Bank Group (WBG) announced that it would provide a rapid relief package of USD 14 billion, USD 8 billion of which through the International Finance Corporation (IFC) ⁷. On the same occasion, incoming World Bank President David Malpass announced that the WBG could disburse up to USD 160 billion in the next 15 months for more than a hundred countries. Of this total, USD 50 billion would be new funds from the International Development Association (IDA) in the form of concessional loans.

Do the positions by the World Bank towards the COVID-19 pandemic signal some change of direction, some break with the neoliberal agenda that has been prescribed (with variations) for four decades? The signals issued by late August 2020 suggest otherwise. I list three of them here.

First, the emergency relief package has been channeled through the IFC, the WBG agency that lends to the private sector. The mission of the IFC is to directly finance the expansion of private

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companies, both foreign and domestic, in poor and middle-income countries. There is an undeniable need to support production and trade, principally to micro, small, and medium-sized companies, in order to protect jobs and avoid bankruptcies. However, not even the IFC targets this segment exactly: how many companies of this size actually have the expertise to seek and negotiate with such an agency –, the package targeted specifically to companies involved in the response to the pandemic includes medical equipment and pharmaceutical companies, whether as suppliers of products and services or as actors involved directly in public-private partnerships (PPPs) (see list of IFC press releases and actions at <https://ifcextapps.ifc.org/ifcext/pressroom/ifcpressroom.nsf/0/CCCB1EAC6F61E32C8525852E0068124B?OpenDocument>). Meanwhile, there is already sufficient evidence concerning the problems and limitations of PPPs in the health sector in peripheral countries^{8,9,10,11,12}, whose growth usually occurs to the detriment of strengthening universal public systems.

Second, the World Bank president stated that the release of financing will depend on counterpart policy measures, such as trade liberalization and deregulation policies (that promote private health markets, for example)¹³. Such policies have been prescribed for decades by the World Bank (together with the IMF), negatively impacting, whether directly or indirectly, health systems and social determinants of health¹⁴.

In fact, the financing granted by the World Bank features embedded conditionalities that can be one-off (limited to the sphere of specific projects) or quite broad (when tied to adjustment loans) and encompass the shaping of public policies and the State's own structure. Compliance with these conditionalities is monitored by the World Bank, which manages the flow of outlays (with the power to interrupt them) according to the respective governments' performance, thereby ensuring the World Bank's bargaining power. Since the late 1990s, the World Bank has used the *ex post* conditionality more often, by which aid is based on the government's performance in ensuring a pro-market "environment". This type of conditionality is generally required by the IDA in poor countries, which lack sources of foreign financing other than the development aid institutions and low capacity for negotiation. One important point is that the concessional loans and credits induce changes in the composition and destination of public spending, since the governments must prioritize the execution of externally financed public policies, make matching financial outlays, and pay back the loan to the World Bank, considered a preferential creditor, in strong currency, which increases the countries' foreign debt burden and can drain resources from their health systems.

Since the World Bank does not exercise immediate control over national policies, it has to use indirect forms of influence in order to convince and commit governments to perform certain actions. In this dynamic, together with the money, the World Bank offers advice and technical assistance. After all, the World Bank normally cloaks proposals of a political nature with technical arguments. Technical proposals only shape public policies when they are linked to a set of conceptions, interests, and objectives that orient the government's action. That is, technical ideas and proposals do not prevail because they are necessarily superior in professional terms, but because they meet the practical needs of central actors¹⁵.

The most widely used instrument to convince governments is the conditionality, which mixes policy advice and technical assistance, by which the client State assumes a given commitment in exchange for funds. Unlike the specialized United Nations agencies such as the World Health Organization, the World Bank has resources to amplify its advice and make it more attractive. Client nations tend to turn to the World Bank with they have little access to alternative sources of financing or when there are groups attuned to the World Bank's agendas, well-positioned in the State, interested in using the conditionalities in the local political dispute in order to pass unpopular reforms. Crisis situations increase the number of the World Bank's client countries, especially those more vulnerable to *ex post* conditionalities. An important issue is that the World Bank can also lend to states and municipalities, which in federative countries like Brazil, historically the institution's second largest client, next only to India, can lead to the capillarization of its operations throughout the national territory.

Third, the World Bank's prescriptions to fight the pandemic in Brazil do not question the neoliberal recipes, to the contrary. The institution's most complete document on the topic¹⁶ shows that despite the recommendation for temporary measures that involve increasing public spending, the World Bank continues to advocate for the normative primacy of fiscal adjustment and a neoliberal reform agenda that runs contrary to strengthening the necessary State capacity to guarantee the social

and economic rights laid out for all Brazilians by the 1988 *Federal Constitution*. Four points in this agenda deserve highlighting: (a) the unlinking of public spending on health from the Constitutionally defined minimum, flexibilizing an obligation which, strictly speaking, has never been met; (b) freezing the government employee payroll, combined with the suspension of career progression and the interruption (except in health and security) of new public hiring; (c) the implementation of social security reforms in the states that have still adopted them; and (d) harsher mechanisms of control, surveillance, and sanctions over the fiscal performance of states and municipalities in order to impose fiscal adjustment on the Brazilian State as a whole and maintenance of the ceiling on public spending according to *Constitutional Amendment n. 95/2016*. Regretting that the reform agenda, launched by the Temer government and continued by the Bolsonaro government, had been overshadowed by the pandemic, the Bank recommends the agenda's immediate resumption, which further involves the following: "...a continued opening of markets to greater competition (beyond trade); a reform of the country's byzantine tax system to enable the efficient allocation of factors; and a more general reform of the business environment. Given the significant blow to the country's fiscal space, it will be important to also communicate how the fiscal consolidation agenda will be maintained – and potentially tightened – to reach the ultimate target of recreating fiscal space. With regard to monetary policy, and especially in light of potential quantitative easing and Brazil's history with the monetization of fiscal deficits and inflation, it will be more important than ever to guarantee the *de jure* independence of Brazil's Central Bank" ¹⁶ (p. 134).

To implement this agenda, the World Bank not only provides loans, policy advice, technical assistance, and research, but also proposes to openly adopt an advocacy role in the country's public opinion, thereby evidencing the wide-reaching, politicized, and intrusive nature of its action ¹⁷. It is essential to consider the role played by the federative entities in the relationship with the institution. From the Collor government (1990-1992) to July 2020, the World Bank conducted 312 operations in Brazil, with 53% of the disbursements to states, 42% to the Federal Government, and 5% to municipalities (survey performed on https://projects.worldbank.org/pt/projects-operations/projects-summary?lang=pt&searchTerm=&countrycode_exact=BR, accessed on 27/Jul/2020). These data illustrate the broad range of relations the institution maintains in Brazil.

The COVID-19 pandemic has laid bare the need for more and better international cooperation, multilateralism, and support for institutional capacity-building to guarantee social rights for everyone, including in health. By all indications, the world that will emerge from the pandemic will experience much more inequality, not only between countries, but within each of them ¹⁸. On its website (<https://www.worldbank.org/>, accessed on 29/Aug/2020), the World Bank says it is committed to "eliminating extreme poverty and promoting shared prosperity in a sustainable way". Based on its history in the last forty years, the Bank will have to completely review its practices if it wishes to take this commitment seriously.

In conclusion, it is important to consider some key changes in global geopolitics. The last twenty years have witnessed growing competition with the World Bank by new bilateral donors (mainly China) through South-South cooperation, which tends to focus on financing projects and avoids political conditionalities ¹⁹. At the same time, the BRICS countries (Brazil, Russia, India, China, and South Africa), frustrated with the limited progress with reforms in the Bretton Woods institutions (FMI and World Bank), joined together to create organizations to provide economic assistance. One such organization is the New Development Bank, which provides development loans (as does the World Bank) and also loans to support the balance of payments (as does the IMF). Another such organization is the Asian Infrastructure Investment Bank. Both have their headquarters in China and are led by that country. If both take off without relying on political conditionalities, it is possible that the financial competition from these new organizations, which tends to increase in the post-pandemic scenario, will weaken the political and intellectual influence of the Bretton Woods institutions, headquartered in the United States and led by the latter.

Additional information

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