International financial institutions and the elites of the Global South: Perspectives from Brazil

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At the 75th anniversary of the establishment of the World Bank and International Monetary Fund, this article reflects on the continuing and evolving influence of both in the Global South despite claims of their diminishing relevance. The article uses the Brazilian experience to demonstrate how both institutions work with local and international elites to erode democratic governance and support failed policies that prevent structural changes that would result in equitable and ecologically sustainable development.

During their 75 years of existence, the World Bank (also referred to as ‘the Bank’) and the International Monetary Fund (IMF) – known as the Bretton Woods Institutions (BWIs) – have been the focus of various criticisms as a result of their operations in the Global South. This article reflects on the constant and growing influence of the BWIs in the Global South, despite claims of their diminishing relevance. Based on our experience as activists and researchers monitoring the role of BWIs in Brazil, we focus on the relations the BWIs have built with economic and political elites of the South in order to determine the construction and implementation of public policies, exercising power less as a direct form of imposition and more through implicit and barely visible channels. We hope to outline how – through their various channels of influence – the BWIs, in cooperation with local elites, undermine democratic governance.

We do this in a challenging context for Brazil, to say the least. From the impeachment of former President Dilma Rousseff in 2016 to the election of Jair Bolsonaro´s far-right government in 2018, Brazil has been losing its leading role in the Global South by prioritising alliances with traditional powers, particularly the US. Domestically, Bolsonaro has been seeking to deepen neoliberal policies by accelerating the privatisation of companies and public services and promoting an attack on labour, environmental and human rights laws and policies, governmental and non-governmental entities, and indigenous leaders and communities. This must be contrasted to previous governments, particularly with Lula da Silva (2003-2010), when Brazil ascended to the status of ‘emerging power’, helped to establish the Brazil-Russia-India-China-South Africa (BRICS) group, and became a leader of the Global South in different international negotiations. However, even during this period Brazil continued to prioritise, and to a certain extent deepen, a development model based on the extraction of natural resources and large infrastructure projects, with serious social and environmental consequences. Thus, despite the evident differences with Bolsonaro’s current government, which the BWIs now support, the large projects implemented by the Brazilian government in the previous period were aligned rather than opposed to World Bank policies.

The World Bank’s influence over the Brazilian economic landscape

The process of economic liberalisation implemented in Latin America as a consequence of the BWIs’ policies in the name of attracting international investment has triggered deregulation and weakened environmental laws. In Brazil, as in all of Latin America, a development model based on mega-infrastructure projects, agribusiness and the extractive industry has become dominant. Environmental conflicts have deepened, the recognition of territorial rights halted, and threats to the integrity of indigenous lands have increased.

Some of the most recent examples of this neo-extractive model are hydroelectric plants built in the Amazon, such as the Madeira River complex. As a result of opposition to large dam projects, in 1997 the World Bank and the World Conservation Union established a multi-stakeholder Commission to review the effectiveness of large dams around the world. The Commission concluded that while “dams have made an important and significant contribution to human development,” in “too many cases an unacceptable and often unnecessary price has been paid to secure those benefits, especially in social and environmental terms, by people displaced, by communities downstream, by taxpayers and by the natural environment.”[i] Nevertheless, while having reduced direct loans to dams, the World Bank has found other ways to enable the Brazilian state to ignore all the “compelling evidence,” including the Bank´s own research, on the ineffectiveness of large dams.

Through a World Bank Energy Sector Technical Assistance Loan,[ii] the Ministry of Mines and Energy (MME) hired the international consultant Sultan Alam to support the environmental licensing process of the Santo Antônio Madeira complex, a hydroelectric dam, in the Brazilian Amazon.[iii] After only two days of visiting the area where the dam was to be built, applying a methodology questioned by the Brazilian environmental agency and consulting mainly secondary sources, the consultant´s report, primarily based on his knowledge of European and US rivers, claimed to have ‘solved’ the technical concerns surrounding the amount of sediment in the Madeira River, which could potentially compromise the generators and render the project unfeasible.[iv] This is only one example that reveals the efforts of the World Bank and the MME to ensure that the construction of the Madeira complex took place as quickly as possible, despite risks to the local population, environmental protection and riverine and indigenous peoples, as documented by several other studies and technical opinions.[v] The Bank responded that, as governments did not adopt the recommendations of the Commission, neither could the Bank.[vi] In this case, the Bank – without a hint of irony – helped bypass governance structures it itself had helped create.

On the one hand, the Bank claims to have been the first international institution "to provide financial and technical support for environmental activities in Brazil", while also recognising that most of these projects "were intended to correct environmental degradation caused by infrastructure projects financed by the Bank in the 1980s."[vii] On the other hand, in 2008, at the request of the MME, the Bank initiated a series of studies on the Brazilian environmental licensing process as part of the Structural Adjustment Loan/Technical Assistance Loan (SAL-TAL) aimed at reforming the country's environmental policies.[viii] Amongst the "main messages" of the first study of the series,[ix] the Bank stated that the "environmental licensing of hydropower projects in Brazil is perceived as a major obstacle for the expansion of the country's electricity generation capacity." The study also deemed the Federal Public Prosecutor´s Office as a further obstacle, since, in the cases observed, the "Public Prosecutors' actions, and their natural inclination to use judicial measures generate frequent disputes within the licensing process." It is, however, this "natural inclination" that has provided social movements and affected communities a rare channel through which to question violations of various environmental and human rights laws related to large infrastructure projects in Brazil. The solution proposed by the Bank was a capacity building programme for public prosecutors on mediating environmental conflicts through negotiation techniques, replacing the primacy of rights.[x] Rights are thus 'negotiated' and denied in favour of those who have the power to "get to their yes, without giving in."[xi] As such, the World Bank shapes the production of knowledge on what development is and should be, in favour of both international and domestic elites at the expense of marginalised populations.

Corruption and the post-Washington Consensus in Brazil

Another example of the link between the World Bank and Brazilian elites relates to investigations into corruption and the Lava Jato Operation – or Operation Car Wash - which led to the arrest of various political and economic leaders in Brazil. The debate on corruption has inevitably involved the World Bank, as it is central to the so-called 'post-Washington Consensus', where, in contrast with its predecessor, market failures are recognised and governments given a role in regulating markets.[xii] According to the Bank, there is an inevitable link between political and economic deficiency: Corruption generates capital flight and reduces the rate of economic growth, representing a symptom of failed governance, and ineffective management of public resources. According to this narrative, the accusations of corruption and the impeachment of Rousseff, the first-ever female Brazilian president, in 2016, are often used as examples of society's intolerance of corruption and fiscal irresponsibility. In response, the World Bank and the Federal Public Prosecutor´s Office signed an agreement in February 2015 to manage the risk of corruption in Brazil.[xiii]

At the height of this process, in May 2016, the World Bank released its Systematic Country Diagnostic (SCD) for Brazil, where it discusses economic and governance deficiencies and the obstacles to development after the end of the commodities super-cycle.[xiv] Although the Bank made no reference to the political crisis facing Brazil, the report reinforced old prescriptions for creating a "good business climate," where political consensus once again plays a central role. Among the proposals put forward by the Bank were less regulation and tax and pension reform, reducing the burden of existing environmental regulations, green growth and more efficient management" of land, water and carbon resources.[xv]

These recommendations contributed to the election of Bolsonaro and his economic strategy. This included pension reform, referred to by the National Association of Federal Revenue Auditors as "an implosion of the public social security system in force in the country since the 1920s and consolidated by the 1988 Constitution," which "serves the interests of the financial system" in pursuit of "profit above all."[xvi] Carlos Vegh, the World Bank economist responsible for Latin America and the Caribbean, has defended the reforms of the current government, saying it is "doing things very well" by pushing through a "fundamental" pension reform, adding "from an exclusively economic point of view, I think Brazil is recovering without pausing, but without haste."[xvii] This goes to show that corruption is not, as argued by the World Bank, the foundation of economic deficiency. As noted by professor Alfredo Saad Filho, there is rather an orchestrated connection between anti-corruption efforts and economic "efficiency," applying any possible means in order to create a "good business climate", which promotes the interests of economic and political elites.[xviii]

IMF reforms and BRICS: Pursuing real alternatives?

In the case of Brazil, one of the significant developments in regard to the BWIs was the country's payment of its debts to the IMF and its transition to becoming a creditor to the Fund following the default in the 1980s and other financial crises in the 1990s.[xix] However, this early repayment did not reduce the country's overall debt burden, but exchanged external debt for internal debt with more than double the interest rate and much shorter maturities. This debt repayment, which also occurred in the cases of Argentina and Turkey, reflected demands from the US government to avoid the concentration of IMF debts within a few countries and did nothing to disrupt political relations between Brazil and the IMF. However, Brazil and the other BRICS countries have, to an extent, sought to coordinate their interventions to demand reforms in the IMF. This agenda was clearly a source of tension with Western powers, which sought to delay or even halt reforms at the Fund. In the end, the IMF quota reform agreed in 2015 increased the voting power of China (which saw its voting share increase 37 per cent), Brazil (23 per cent), India (11 per cent) and Russia (8 per cent) at the expense of other 'developing' countries: South Africa lost 21 per cent of its voting power, while Nigeria and Venezuela lost 41 per cent.[xx] Greater shareholding power of some BRICS countries within the IMF did not alter the dominant position of the US, nor did it alter the Fund's norms and rules. Now, as the IMF is set to publish its 15th General Review of Quotas, the US has suggested that it will block further reforms of quotas.

While demanding some reforms in the BWIs, the BRICS have also created new multilateral financial institutions: The New Development Bank (NDB) to fund infrastructure and sustainable energy projects, and the Contingent Reserve Arrangement (CRA) to lend to countries with balance of payment problems. Despite high expectations surrounding the creation of the NDB and CRA, however, they have both proven to complement, rather than oppose, the BWIs. Soon after its inauguration, the NDB established a partnership with the World Bank for infrastructure investment.[xxi] In the case of CRA, its articles of agreement compel any borrower to acquire an IMF structural adjustment package after receiving just 30 per cent of its lending quota (in order to access the next 70 per cent).

Notably, the NDB and the Asian Infrastructure Investment Bank (AIIB) launched in 2016, as the World Bank was revising its Environmental and Social Framework. The NDB and the AIIB placed greater weight on national socio-environmental protection and risk management systems; the World Bank adapted its socio-environmental safeguards policy to follow the same approach. As some have pointed out, the use of 'country systems' has meant that the World Bank, the AIIB and the NDB are now competing at the same level for infrastructure projects in peripheral areas of the Global South.[xxii]

The policy of strengthening national systems theoretically meets the principle of non-interference in internal affairs and preserves the scope of action of national states. The problem is that, while it is important that social and environmental standards be decided, implemented and monitored by national institutions, multilateral financial institutions may seize the moment, and support a global competition to attract investors, resulting in a regulatory 'race to the bottom', which we argue is the case with the World Bank.

Moving Forward

The Brazil case shows that, despite changes in the political stance of the government in place, the BWIs strategy for the country remains the same: Impose market rationale onto non-market forms of living, sometimes through non-democratic, illegal or illegitimate means. Changes in political narratives have not translated into changes in the *modus operandi* of these institutions. They have learned to adapt. They can claim the success of government policies, such as the Programa Bolsa Família, central to the platform of Lula's Workers Party government (PT), exporting it to other countries; they can seamlessly complement South-South "alternatives" such as the NDB and CRA; and they can support the Bolsonaro government, which has been characterised by many as neofascist, even as it has advanced Brazil to the 109th position in the Bank's the "ease of doing business" rankings.

In Brazil, as in many parts of the world, we are now facing crucial challenges. Old critiques of neoliberal practices and the BWIs don't seem to have much traction in the context of an increasingly conservative, violent, religious and authoritarian government. In Brazil, as elsewhere, the rise of the far-right government can be traced to the democratic governance deficit resulting from the inability of the state to construct more equitable relations of power when faced with opposition from local and international elites, acting in part through the BWIs. Our methods and narratives are being challenged, amidst the need to recover the spaces lost by the working classes, women, afro-descendants, the LGBT and traditional and indigenous peoples. Seventy-five years of the BWIs siding with Brazilian elites is more than enough.

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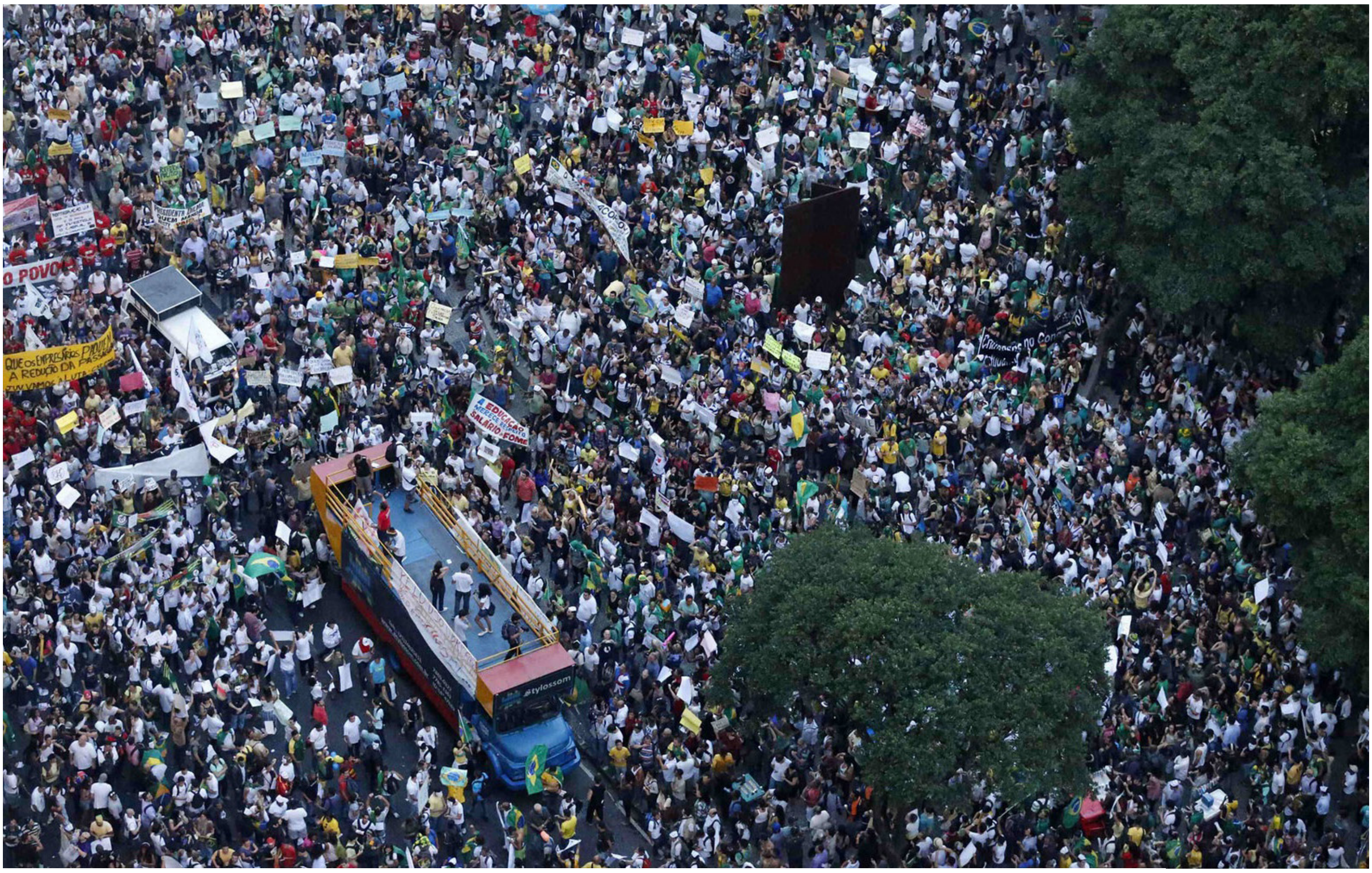

Demonstrators in Rio de Janeiro tapping into widespread anger at poor public services, police violence and government corruption, June 20, 2013.