The IMF and World Bank talk good governance, but walk with state-capturers

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To some degree, the Annual Meetings of the Bretton Woods Institutions (BWIs) in Marrakech will be focused on the tragic earthquake and flooding damage in Morocco and Libya, respectively – in turn reflecting a lack of durable infrastructure, especially in the latter case after the state was crippled by NATO regime-change excesses in 2011 and Derna's fragile dams were not maintained. The reconstruction funding needs are enormous, but are the BWIs appropriate allies, given their record?

In late August, the BRICS+ gathering in Johannesburg, South Africa, raised near-universal concern (or even misplaced *hope*) that some of the world's most tyrannical regimes are uniting and potentially facing off against the 'West' in part because of the BWIs' heavy-handed loan conditionality. Five of the six new members are from the Middle East and Horn of Africa, including dangerously-indebted Egypt and Ethiopia, while another new member, Argentina, is under Washington's austerity thumb. And that perception will probably compel a more active reengagement of BRICS+ regimes by a new down-to-business World Bank president, Ajay Banga, and by International Monetary Fund (IMF) Managing Director Kristalina Georgieva (see Inside the Institutions, *What is the gentleman's agreement?*).

Banga's own decade-old history in Johannesburg's Soweto township featured a Mastercard partnership with a Bank-owned 'financial inclusion' firm (Cash Paymaster Services) that in 2020 was forced into receivership after failing to pay fines for extensive fraud against the state (via a corrupt welfare minister) and millions of the society's poorest (see *Observer* Summer 2023). Likewise, Georgieva was a top World Bank official before moving to the Fund in 2019, and was mainly remembered for her alleged role in 'torturing data' in the Bank's *Doing Business* reports on behalf of China's Foreign Direct Investment programme. The alleged statistical fraud was so severe that she was nearly forced to resign from IMF leadership in 2021 (see *Observer* Autumn 2021). In the same spirit, her IMF managing director predecessors include Rodrigo Rato, who was jailed for financial fraud in 2017, Christine Lagarde who was convicted in a French political bribery case in 2016, and Dominique Strauss-Kahn who resigned after his sexual attack in a New York hotel in 2011 and was prosecuted (although the case was dropped, a civil claim by the victim, a hotel cleaner, was later settled out of court).

What is it about Washington's hallowed international financial hallways that makes it so difficult for BWI bureaucrats to break the pattern of intra-elite corruption? To be sure,

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the extreme pressure of geopolitics often suffocates financial ethics, for as establishment economist Rudiger Dornbusch remarked in 1998, "The IMF is a toy of the United States to pursue its economic policy offshore," a problem that won't go away while Washington both retains veto power over Bank and Fund policies and projects, and props up favoured dictators (see Inside the Institutions, *IMF and World Bank decision-making and governance*). The recent scandal in which the US exercised its power at the IMF to fast-track a $2 billion loan to Pakistan, in exchange for the latter's $900 million urgent weapons supply to Ukraine, is only the latest case.

But there is a deeper reason for sustained corruption: Neoliberal ideology. From North Africa to South Africa, financial deal-making with explicitly-corrupt governments is hard-wired into the Bank and IMF, even while the BRICS' own 'alternative' institution, the New Development Bank, appears to have exactly the same problem in relation to its dozen South African portfolio credits. Additionally, the (still-notional) BRICS Contingent Reserve Arrangement empowers the IMF because if a country wants to borrow more than 30 per cent of its quota, it must first sign up for a structural adjustment programme – designed at 18th & H Streets NW in Washington DC. The BRICS institutions are not actually alternatives after all, but amplifiers of malgovernance, given the political pressure to conform to both borrower desires – e.g. Vladimir Putin's crony capitalism or South African parastatal agencies' service to the minerals-energy complex – and the inevitable New York credit rating agency squeeze (see *Observer* Summer 2020). That, in turn, ironically compelled the New Development Bank to join Western financial sanctions against its own 18 per cent-shareholder in Moscow immediately after the February 2022 invasion of Ukraine, and maintain them even under the 2023 Bank presidency of Putin's ally, Dilma Rousseff.

Lessons of the Arab Spring unlearned in Washington

A dozen years ago, IMF and Bank back-scratching patronage appeared on the verge of collapse in North Africa. In 2011, millions of pro-democracy protesters in Tunisia, Egypt, Libya and Algeria ran up against brutality inflicted by tyrannical, ultra-corrupt regimes. Behind the scenes in each case were World Bank and IMF officials who supported (and often financed) economic injustice, even as austerity put unbearable pressure on society. Most notorious was Strauss-Kahn, who in 2008 was feted by Tunisian tyrant Zine El Abidine Ben Ali. The IMF head was given the Order of the Tunisian Republic for his "contribution to the reinforcement of economic development at the global level." Strauss-Kahn was effusive in return, terming Ben Ali's economic policy "the best model for many emerging countries....Tunisia is making impressive progress in its reform agenda and its prospects are favorable."

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Codifying Strauss-Kahn's praise for Ben Ali, two of his economists – Joël Toujas-Bernate and Rina Bhattacharya – enthused in *IMF Survey Magazine* in 2010 how Tunisia's dictator had promoted "wide-ranging structural reforms aimed at enhancing its business environment and improving the competitiveness of its economy." They praised his "prudent macroeconomic management," an "export promotion strategy," various free trade agreements and, in finance, moves toward liberalisation that would "transform Tunisia into a banking services hub and a regional financial market."

In social policy, Toujas-Bernate and Bhattacharya applauded the Tunis authorities for "reforms to labor market policies, the educational system, and public employment services that will serve to facilitate labor mobility and reduce mismatches between demand and supply in the labor market. The implementation of these reforms will be supported by several World Bank Development Policy Loans" (see Inside the Institutions, *What is World Bank Development Policy Financing?*). In "reforming the social security system" (i.e. cuts that might "buttress the pension system's financial sustainability") and attempting to cut "subsidies of food and fuel products," Ben Ali won praise for "undertaking reforms to make the tax regime more business friendly" including commitments "to reduce tax rates on businesses and to offset those reductions by increasing the standard Value Added Tax (VAT) rate," i.e., a profoundly regressive approach to taxation (see *Observer* Winter 2020).

The 17 December 2010 suicide-by-immolation of an immensely frustrated informal trader, Mohamed Bouazizi – after his fruit and vegetable stand was confiscated, reflecting Washington's instructions to squeeze tax receipts from the poor – catalysed the Arab Spring revolt that pushed Ben Ali out just a month later. WikiLeaks revealed how even the US State Department was appalled by the families of Ben Ali and his wife Leila Trabelsi, who controlled half the national economy and who, as Rob Prince put it, were "dominating the IMF-pressured privatisations that have marked the country's economic transition." In July 2019, Tunisia's Truth and Dignity Commission sent memoranda to the World Bank and the IMF, as well as to France, seeking reparations for Tunisian victims of human rights violations, claiming that the IMF and World Bank bear "a share of responsibility" in social unrest linked to structural adjustment policies (see *Observer* Autumn 2019).

As for Muammar Gaddafi's reign in Libya, the IMF in October 2010 celebrated the regime for "reducing civil service employment" by a planned 340,000 workers, while recommending "that the retrenchment program be accelerated." In February 2011, the IMF promoted "an ambitious program to privatize banks" and "commended the authorities for their ambitious reform agenda, and looked forward to the effective implementation of the many important laws passed in the last year, complemented by policies aimed at adapting the labor force to the economic transformation."

New York Times reporters Pierre Briancon and John Foley observed how, "The fund's mission to Tripoli had somehow omitted to check whether the 'ambitious' reform agenda was based on any kind of popular support. Libya is not an isolated case. And the IMF doesn't look good after it gave glowing reviews to many of the countries shaken by popular revolts in recent weeks," including Bahrain, Algeria and Egypt. The *Times* journalists' worry was that "the toppling of unpopular regimes will make it difficult for their successors to adopt the same policies. In the future, the IMF might want to add another box to check on its list of criteria: democratic support" (see *Observer* Winter 2019).

But because that concept was utterly foreign, neither the IMF nor the Bank seemed to have any idea that promoting neoliberalism in corrupt regimes so openly would generate political instability. A February 2011 World Bank report, *Africa's future and the World Bank's support to it*, claimed that both Tunisia and Libya were 'low risk' in a map of "fragile and conflict affected states", even after Ben Ali was ousted by popular demand and Libya was breaking apart.

And in Egypt, where Hosni Mubarak's dictatorship and military-capitalist regime was borrowing heavily, the IMF's Article IV Consultation praised Cairo in 2010 for "key fiscal reforms – introducing the property tax, broadening the VAT, and phasing out energy subsidies." Mubarak's "fiscal and monetary policies of the past year have been in line with staff's advice. The authorities remain committed to resuming fiscal consolidation broadly in keeping with past advice to address fiscal vulnerabilities." There was still need, the IMF argued, for "decisive action" in, "resuming privatisation and increasing the role of carefully structured and appropriately priced Public Private Partnerships."

From 25 January to 11 February 2011, millions of angry citizens went to the streets and Tahrir Square, forcing Mubarak to resign. He was then repeatedly convicted and jailed for blatant "presidential palaces" embezzlement of state funds, which somehow had gone unnoticed by the IMF and Bank.

But because of counter-revolutionary processes in the subsequent months and years, none of the countries being praised by the IMF and Bank in 2010 witnessed durable democratisation. And while a G8 Deauville Partnership declaration "pledged support for

Tunisians demonstrate for peace, freedom of speech and for a secular state ahead of elections for a Constituent Assembly on 23 October 2011, following the Tunisian Revolution. Credit: European Parliament 'reforms that promote transparency, accountability, and good governance' in the Arab world," as leading political scientist Adam Hanieh reported in 2015, the World Bank and IMF "attempted to utilise the post 2011 moment to maintain the essential characteristics of past practice, while employing a language that professes a new course and sympathy with the social justice goals of the uprisings."

Adherence to neoliberal dogma meant that in the year that democratically-elected Egyptian president Mohamed Morsi served (2012-2013) before a military coup, the IMF was back to demanding that Cairo drop food and fuel subsidies in exchange for a $4.8 billion loan. Morsi realised if he took such a step it would risk a reboot of the Arab Spring. Even his coup-installed successor, General Abdel Fattah El-Sisi (who in 2018 was later formally elected), received three bailout loans from the IMF. In 2023, the $3 billion requested by the tyrant from the IMF was contingent upon further privatisation and exchange control deregulation.

The story was initially similar in Tunisia, where after Lagarde sweet-talked its new leaders in 2012, IMF conditionality was imposed on loans in 2013 ($1.7 billion) and 2016 ($2.8 billion). But in 2023, as trade unionists opposed the IMF-mandated restructuring of 100 state companies and cuts in social subsidies, the dictatorial President Kais Saied (who in 2021 dissolved parliament and ruled by decree) ultimately rejected another $2 billion IMF bailout due to loss of sovereignty. But Saied's securocrat regime is appreciated by European Union officials, who doled out generous aid in order to bridge the gap to IMF lending, so as to slow African migrant passage through Tunisia.

South Africa's corruption continues, with more IMF and Bank funding than ever

At the southern end of Africa, the IMF and Bank were extremely generous lenders to the apartheid regime – with proceeds advancing white South African and multinational corporate mining interests – and in 1993, an $850 million Fund loan locked in neoliberal policies that decisively shifted Nelson Mandela's government away from its 1994 democratic mandate. World Bank economists were crucial in authoring Mandela's 1996 homegrown structural adjustment programme, as well as biased subsequent research aiming to cover up the resulting inequality, the world's worst.

In 2010, the Bank's $3.75 billion Eskom loan for a 4800 MW coal-fired power plant allowed the crucial funding of manufacturer Hitachi's state-capture of the ruling party, although the Bank's 2007-2012 President Robert Zoellick was fully aware of that corruption (which was by late 2007 already a scandal) and citizen lobbying against the loan was unprecedented (see *Observer* Winter 2022). When Hitachi was successfully prosecuted in 2015 under the Foreign Corrupt Practices Act by the US Securities and Exchange Commission, the Bank's Vice President for Integrity Leonard McCarthy (a controversial South African) illogically claimed that no Bank funds were affected. Moreover, as extreme structural corruption was being unveiled within the South African state – including its fraud-riddled health ministry – the IMF and Bank offered major loans in 2020-2022 ostensibly for Covid-19 relief, drawing protest at the Bank's Johannesburg office.

Ironically, it was a quarter century ago when the World Bank began regularly fretting over state capture, particularly based on the disastrous Eastern European political transitions. In 2006, then-President Paul Wolfowitz – himself deposed a year later due to malgovernance – gave vocal Bank support to the Extractive Industries Transparency Initiative. And yet, conditions prevailing among some of its most wretched borrowers – especially in Africa – mean that in the course of dogmatically promoting hard neoliberal 'reforms,' the Bank and IMF have regularly elided the obvious correlation between state shrinkage and crony empowerment.

At the April 2011 IMF Spring Meetings, during Strauss-Kahn's last press conference, a journalist asked about the North African uprising: "Do you have any fears that there is perhaps a far left movement coming through these revolutions?" A smug Strauss-Kahn remarked, "Good question. There's always this risk, but I'm not sure it will materialise." Until it does, the system appears impervious to genuine reform.

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