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3 Development thinking, debt, and the multilateral development bank system: 1946–79

This chapter is the first of two chapters exploring the emergence of development ideas and how they link to (i) the advent of the MDB system and (ii) development in practice. Chapter 3 explores the period from the start of the Bretton Woods system at the end of the Second World War until the late 1970s, three decades through which the post-war Keynesian consensus melded with welfare state and modernisation model to dominate economic thinking (Fine 2001). It was also the largest period of MDB creation with 22 organisations established. The chapter pays special attention to the founding of the first MDB – the World Bank – as it provided the model for future development banks. Thus, this chapter begins with a brief outline of the Bank set within the context of the emergence of development thought. The second section of the chapter explores the impact of regionalism and the United Nations (UN) on the expansion of the MDB system, outlining how the marginalisation of the UN in favour of the MDBs profoundly shaped development practice and more. The third section explores the sub-regional expansion of the MDB system, while the final section returns to the issue of debt, which rapidly expanded in the 1970s laying the foundations for the so-called 1982 Third World Debt Crisis.

As Chapter 2 outlined, the theoretical tradition that most influenced the Bretton Woods institutions was Keynesianism. Keynes' (1973) work was aimed at saving capitalism from its tendency to crisis as well as ensuring high levels of employment and reasonable standards of living for all; he aimed to make capitalism work more effectively. Keynes argued that capitalism tended to boom and bust cycles and that contra neoclassical economics, there was no automatic system for adjustment rather government intervention was needed (Galbraith 1975, Roll 1973). Keynes also saw the need for international economic cooperation as these same forces were at work globally and coordination was vital, especially during crises. Indeed, he was a key participant at the July 1944 Bretton Woods Conference that created the World Bank. Keynesianism fed into the establishment of development economics in the 1940s and 1950s and helped consolidate the idea that the state was a key means to organise society and promote development (Berger 2004). Keynes' work also reflected changes that had already been taking place in many industrialised states, where the role and reach of the state was expanding. This has been called a revolution in practical governmental policy, and Meade (1975, 87) argues this was 'of much greater importance and significance for the welfare of mankind' than the revolution in macroeconomics produced by Keynesianism.

After the Second World War, influenced by Keynesianism, development thought was not particularly ideological, it was not 'left' or 'right,' rather there was general consensus that more government intervention was needed than previously (Rapley 2002). Other key influences on development thinking were Modernisation Theory, with its focus on emulating the political and social systems of the West, and Growth Theory, which focussed on expanding capital formation from savings and investments as crucial to accelerating economic growth. Fine (2001) usefully labelled the post-war consensus as the Keynesian, welfare, modernisation model. This was the general milieu as the World Bank was established – development studies and development economics were in their infancy and thinking focussed on a greater role for the state through planning. Statism, Modernisation Theory, and Growth Theory all saw debt as a useful way the state could obtain the capital necessary for investment and 'take-off,' though Structuralism and Dependency Theory would challenge many of these ideas.

3.1 The World Bank: a brief introduction

The World Bank commenced operations in 1946 as the IBRD but later grew into the World Bank Group, which today has five institutions: IBRD, International Finance Corporation (IFC) added in 1956, IDA in 1960, International Centre for the Settlement of Investment Disputes (ICSID) in 1966, and Multilateral Investment Guarantee Agency (MIGA) in 1988. Given that this book studies MDF, we focus on the Bank's MDF arms: the IBRD, IDA, and IFC. As per World Bank Group usage, the term 'World Bank' refers to the IBRD and the concessional lending arm, the IDA, which have different Articles of Agreement but share the same staff and headquarters. In contrast, the IFC invests purely in private enterprises via loans and guarantees and provides risk management and advisory services. The Bank is the largest development agency in the world with over 12,000 staff and 5,000 contractors in 2019. After a large capital increase agreed to in 2018, its total capital base is $312.9 billion, meaning that surpassed even the European Investment Bank (EIB) which has $275 billion in capital.

Most historical accounts of the World Bank largely present it as the product of Anglo-American negotiations. As outlined in Chapter 2, however, its origins are more complex than that, with proposals for international economic cooperation dating to the 1800s. The story of the Bretton Woods Conference, where the final details of the IMF and Bank were negotiated, has been told often and very well (see inter alia Block 1977, Gardner 1980, Oliver 1971) and hence is not retold here. Overall, Bretton Woods gave the IMF responsibility for promoting an orderly exchange rates system, providing short-term assistance to nations facing balance of payment crises and undertaking surveillance of global economic conditions. Of course, its role in the exchange rate system changed dramatically in the early 1970s with the end of the gold standard and the shift to floating exchange rates. The Bank was to provide long-term loans to promote reconstruction and development. As Chapter 2 outlines, both institutions reflected the growing belief in the importance of international organisation, and they had Keynesian social democratic aims. The Bank's primary architect, Harry Dexter White, intended the IBRD as an alternative to private banks, which had been too exploitative and crisis prone (Oliver 1975). But, like most things, the devil is in the detail and in setting up the IBRD as a bank, White created an institution that would institutionalise banking norms more than human development goals. Other MDBs largely followed the model framed by the Bank, with their structures outlined in Chapter 5. Still, the Keynesian ideals that imbued the Bank's creation remain an important influence on the institution and subsequent MDBs, often most visible in their purposes, one focus of this chapter.

Analyses of Bretton Woods have tended to argue that reconstruction was at the forefront of White's mind in establishing the IBRD (e.g., Oliver 1971). In fact, White also had a strong focus on development and the Latin American delegations – and Mexico's representatives in particular – ensured that development was higher on the Bank's agenda than would have otherwise been the case (Helleiner 2017, 2014, Urquidi 1996). US bureaucrats did use the funding of reconstruction as a way of selling the Bank to Congress (Gardner 1980) and most of the other large shareholders were engrossed by concerns with reconstruction and the Bank's early loans reflected this (Mason and Asher 1973).

The IBRD's main aim is facilitating investment 'for productive purposes,' promoting private foreign investment, and promoting 'long-range balanced growth,' productivity, and standards of living (World Bank 2012, 3). The MDB was designed to help capitalism function more effectively and in a socially acceptable manner. In line with the Keynesian project, growth was important not just for its own sake but for its impact on employment (Engel 2010). The Great Depression had demonstrated that the international economy would not, under its own momentum, provide investment at a level that would achieve near full employment. Once operational though, the Bank understood development as the expansion of capitalism. But as Amin (2014, 14) has argued, '[c]apitalism is not "a system of development",' rather it is about the expansion of capital and private property. The Bank demonstrates this point in the way that it has sidelined some of its purposes, including balanced trade and national accounts, standards of living, and employment. To illustrate, the Bank for years claimed that its prohibition on political activity prevented it from promoting the International Labour Organisation's Core Labour Standards (Murphy 2014) despite the fact that among its purposes is the promote of the 'conditions of labour'.

The focus on private investment, private markets for capital, and guaranteeing private loans was a key contribution of the European delegations at Bretton Woods. As the Bank's first official history noted, it ‘was all but the universal expectation of the founders of the Bank that its primary function would be to guarantee private investments’ (Mason and Asher 1973, 26). In practice, it focussed on direct lending to states. The clause on private investment also highlights how economic logic dominated Bretton Woods thinking which has ‘colored the Bank’s development efforts’ ever since, as the Bank’s second official history pointed out (Kapur, Lewis, and Webb 1997, 70). The purposes demonstrate belief in planning and management by experts, noting the need for prioritising ‘useful and urgent projects’ (World Bank 2012, 3). Finally, the clause highlighting ‘the effect of international investment on business conditions’ (World Bank 2012, 3) offered a limited promise of counter-cyclical investment on both a country and a world scale, a Keynesian view. This is an area where it rarely engaged up until the 2007–8 GFC.

In terms of what investments should be prioritised, the World Bank sets the agenda and continues to play a leading, indeed often hegemonic, role in shaping the development practices of other MDBs. Founding senior IBRD staff held that manufacturing and export industries should be funded by private investors, so they were excluded as was investment in state-run enterprises, other than utilities. The consensus that dominated IBRD lending for more than a decade was that public utilities – in particular electricity, dams, transport, and communications – provided the preconditions to economic growth and the expansion of private investment (Mason and Asher 1973). As Toussaint (2008) points out, in its first 17 years the Bank did not lend at all for education, health, drinking water, or wastewater treatment and certainly not for welfare. Bank staffers felt their contribution to economic growth was ‘less measurable and direct than that of power plants’ (Mason and Asher 1973, 151) though it is now clear that this is the most direct way to improve human well-being.

In its early years, the Bank made several loans to colonial powers to finance projects in colonies in direct contravention of the UN’s commitment to self-determination (Kapur, Lewis, and Webb 1997). Once independent, former colonies were required to take over Bank debts contracted by former colonial entities regardless of how odious they were (Toussaint 2008). Further, a key loan condition from its earliest operations has been settlement of outstanding debts, making the Bank a debt collector enforcing a capitalist hegemonic principle. Table 3.1 outlines the main contributions of Bank Presidents until 1981.

Table 3.1 World Bank Presidents 1946–81

Name and Term	*Background*	*Legacy*
Eugene Meyer June–Dec 1946	Born in US, attended Yale University, wealthy banker, served in several government offices, owned Washington Post.	Recruited senior staff, mostly bankers. Laid some of the groundwork for the Bank, especially loan analysis backed by a research department. Adopted a conservative approach to gain Wall Street's confidence. Clashed with Executive Directors over authority.
John McCloy 1947–9	Born in US, attended Harvard University, trained as lawyer, served Assistant Secretary of War during World War II.	Accepted presidency on the basis that he would have strong executive authority relative to the Board of Executive Directors. Obtained funds from capital markets and to do so demonstrated 'sound' (read conservative) lending and staffing policies. Established the interest rate policy and negative pledge – that no other creditor would take precedence over the IBRD – and policy of not lending to countries that had not tried hard to settle on any defaults to other creditors. Started the shift from reconstruction to development financing.
Name and Term	Background	Legacy
Eugene Robert Black 1949–62	Born in US, attended University of Georgia, served in US Navy, worked as investment firm banker, saw himself as a development diplomat.	Built up the foundations of the Bank started by McCloy in terms of loan development, staffing, management, and access to US credit markets to raise capital. Emphasised conservative banking principles. Focused on projects that align with strong national development plans and launched the Bank's technical assistance program. Promoted a vision of development as modernisation and advocated the role of private sector finance, leading to the creation of the IFC in 1956. The concessional loan affiliate, the IDA, was established in the Bank in 1961, although he originally rejected the idea. Popular with Bank staff.
George David Woods 1963–8	Born in US, office worker at bond firm, investment banker.	Viewed the Bank as a development institution rather than just a bank. He expanded lending and introduced program loans and established the Bank's role in aid coordination and strengthened the IFC. Woods expanded research from country creditworthiness to a more comprehensive assessment and expanded economic staff. He shifted focus from large-scale investment to agriculture productivity, education, and population growth. To allay investor fears about private investments, he established ICSID in 1966. Decolonisation saw membership increase by one third.

Name and Term	*Background*	*Legacy*
Robert Strange McNamara 1968–81	Born in US, attended University of California and Harvard Business School, introduced quantitative management to US car industry, served as US Secretary of Defence, responsible for the Vietnam War strategy that analysed success by the number of enemy dead.	One of the most influential and transformative Bank Presidents and a spokesperson for developing countries. He applied his quantitative managerial program to achieving Bank expansion in lending volume, geographical reach and staffing, and diversifying sources of finance. Lending expansion came at the expense of quality. McNamara focused the Bank on inequality and poverty, basic needs, education, and rural development especially for smallholders. Strengthened aid coordination and research capacity. Successful in substantially increasing IDA replenishments through political lobbying. Responded to the OPEC oil crisis by expanding lending and introducing structural adjustment late in his term.

Source: Compiled by authors from a range of sources, basic details from World Bank website (2019).

3.2 The expansion of the MDB system: the role of the UN and regional politics

The World Bank's shift to lending to developing countries occurred in the context of early Cold War hysteria. Despite the Cold War, many newly independent countries were assertive about their developmental needs and they were motivated by the success of the Marshall Plan. They focussed on the need for external capital for the development and were concerned that continued reliance on primary products exports would lead to under-development. This latter concern was empirically demonstrated by the work of Raúl Prebisch (1950) and Hans Singer (1950), whose separately published work on First-Third World trade, titled the Prebisch-Singer thesis, showed that the price of primary commodities, the main exports of developing countries, was declining relative to the price of manufactured exports from the First World. The declining terms of trade meant Third World countries would either need to export more and more primary commodities, change the structure of production in their economies, or live with increasing under-development. Faced with this dilemma, developing countries made a revolutionary push for soft finance to be provided through the UN and not the IBRD (Shaw 2005). The call was originally made by the

Indian economist Dr. V.K.R.V. Rao in 1949 and was championed in developing countries and by Singer over the next decade. In 1952, the proposal was labelled the Special United Nations Fund for Economic Development (SUNFED) and it provided the core ideas for what became the IDA. SUNFED was to provide highly concessional loans and grants and be replenished regularly (Shaw 2005). The World Bank originally opposed the idea, in particular low-interest, long-term loans, as it perceived such loans would reduce the creditworthiness of borrowers (Mason and Asher 1973, 389–90).

The US was also opposed to SUNFED and little happened in IOs in these years without their imprimatur. US initial aid efforts focussed on technical assistance and Congress was very hostile to proposals for grant aid, indeed isolationist elements opposed any expansion of aid (Engerman 2018). The growth of MDF was an attractive alternative to grant aid and US President Truman's famous Four Points Speech in 1949 opened the door for its further expansion (Peet 2003). Still, it took some time to convince Congress of this and an idea from a State Department official for an Asian Development Fund went by the wayside in 1955 (Engerman 2018). This was despite the famous Asian-African Conference taking place in Bandung in April 1955, where 29 Afro-Asian states met to promote economic and cultural cooperation and to oppose colonialism and neocolonialism; the Bandung Conference was a key step in the creation of the Non-Aligned Movement (NAM) in 1961.

The World Bank was focussed on expanding support for the private sector. President Eugene Black proposed the establishment of the IFC as a sibling to the IBRD, to fill a supposed void in private sector lending. The US originally opposed its establishment too, but reversed this as a way of being seen to respond to the SUNFED calls (Mason and Asher 1973, Shaw 2005). Thus, the IFC was established in 1956 'to further economic development by encouraging the growth of productive private enterprise in member countries, particularly in the less developed areas, supplementing' IBRD activities (IFC 2012). The US shift was influenced by Cold War concerns too, which is clear from the fact that it created its own Development Loan Fund in 1957 under the Mutual Security Act aimed at strengthening 'friendly foreign countries' through 'competitive free enterprise' (United States Committee on Government Operations 1960, 6).

Other MDBs started to appear at this time. The Council of Europe Development Bank (CEB) (1956) and EIB (1958) were established without US involvement and are both borrower-led banks in contrast to the IBRD. They were early attempts to create a regional European bloc, as well as rebuild and strengthen Western Europe following the Second World War and during the early Cold War years (Bussière and Willaert 2006, Griffith-Jones and Tyson 2013). The CEB is a specialised development bank and it initially focussed on the welfare element of the Keynesian, welfare, modernisation model. Its social mandate aimed to help solve Europe's problems focussing on the impact of refugees and displaced peoples. It established the idea of both a regional and specialised focus for the MDBs, demonstrating that MDBs could engage with social issues, something the IBRD had avoided. The EIB followed in 1958, established by the Treaty of Rome as part of the European integration project. It aimed to build a common market, facilitate European integration, and promote balanced growth, which set the region-building tone of the RDBs and returned to a modernisation, economic focus. Still, Keynesian social elements continued with its focus on 'balanced and steady development' (European Union 2002, 139). It claims not to be an MDB, but its structure and functions are so similar that we think that it doth protest too much (see Chapter 6). The EIB's focus on region-building – it prioritises funding to 'projects of common interest to several Member States' (European Union 2002, 140) – was explicitly replicated in later regional and sub-regional banks (see Chapters 6 and 7). It was also the first MDB to specify that it is not-for-profit, in contrast to the IBRD being formally a profit-making institution and other MDBs being a mix.

Next came the US-backed IADB, established in 1959. As noted in Chapter 2, the early ideas for an inter-American bank pre-date the IBRD, although formal negotiations fell through. It was resurrected in the post-war era by the 1957 Economic Conference of the Organisation of American States. By 1958, the US supported the proposal, first and foremost because the US was concerned that the Cold War was impacting its zone of influence (Tussie 1995). Further, as discussed in more depth in Chapter 6, the IADB was seen as a counterweight to the IBRD's rather monopolistic position (Phillips 2009) and as a response to the Bank's perceived inadequate attention to Latin America and regional interests in integration (Barria and Roper 2004, Krasner 1981, Tussie 1995).

The IADB started a new approach to the purposes of the MDBs, moving away from the IBRD's mandate of facilitating investment for productive purposes and promoting private investment to the broader goal of contributing 'to the acceleration of the process of economic and social development of the regional developing country members, individually and collectively' (IaDB 1996, 5). While this could be seen as broadly Keynesian, it also reflects the impact of structuralist and statist development ideas that came out of the UN's Economic Commission for Latin America (UN-ECLA), which were popular in the region (Tussie 1995). Indeed, it had more flexibility to direct loans to the private sector than the World Bank (Humphrey 2016). This follows the strategy of import substitution industrialisation (ISI), which was the main way structuralism was operationalised to change the structure of production and avoid under-development (Rapley 2002). ISI was a key strategy in Latin America from the 1930s and was adopted by many newly independent states after the Second World War as well.

Although conforming to the IBRD's banking model, the IADB was established with a concessional lending arm, the Fund for Special Operations (FSO). This indicated that it was possible to combine hard-nose banking functions with a social agenda. While Latin American states had a majority of votes in the main body, the US demanded a veto over FSO operations and insisted that the IADB be headquartered in Washington, DC (Humphrey 2016), demonstrating again the impact of geopolitics on MDBs. Technical assistance is included in the IADB's functions, which was not the case in the earlier MDBs. This likely derived from the experience of the IBRD, which found it could not develop a project pipeline without the provision of extensive advisory services (IBRD 1948). This is further demonstration that the network between the MDBs started early. The establishing agreements of the subsequent RDBs – the AfDB, AsDB, and EBRD – all include technical assistance in their functions.

The IADB supported the creation of other RDBs (Culpeper 1997). Still, the supporters of SUNFED at the UN continued their efforts and even started drafting statutes in 1957. US views had been shifting, which was clear by 1958, but they wanted a soft lending facility under their control rather than the UN, hence tied it to the World Bank. The US had other motivations for supporting the IDA too, they had been accumulating non-convertible foreign exchange through the US food aid programme sale of surplus agricultural commodities and saw the IDA as an outlet for these holdings (Shaw 2005). Further, it was clear that the outlook for developing countries was not great and that the IBRD could not provide the needed support. Indeed, a report on the US Development Loan Fund had noted the IBRD was more like 'the international equivalent of the Export-Import Bank rather than' a loan fund (United States Committee on Government Operations 1960, 33). In other words, the IBRD had a hard-nosed business focus. Once the US supported the IDA idea, the US Treasury Secretary took an outline for it to the IBRD, and they then filled out the details and the IDA was launched in 1960.

The consequences of this decision were profound. The UN 'became a residual organization in economic and social development programs' (Shaw 2005, 58). The World Bank, in contrast, with the IDA add-on increased its resources and client base and was able to move into whole new areas of work that were not self-liquidating like most IBRD lending, including poverty and the social sector. The IDA may have slightly reduced Bank reliance on Wall Street, but it increased the power of major donor states because of the need for regular resource replenishments (Kapur, Lewis, and Webb 1997). The desirability of IDA resources helped facilitate structural adjustment lending in the 1980s at the same time as donors, especially the US, intervened more in policymaking. Overall, the IDA add-on put the Bank in a tremendous position of power in relation to borrowers, meaning that it is not a servant of sovereign states – as the UN system was designed to be (Shaw 2005, 59). The Bank was meant to liaise with the UN system but in practice even liaison has been weak and there is a chasm between the two organisations. In another weakening of the UN system, a group of Northern states set up a coordination mechanism for donors in 1960 through the grouping of rich states, the Organisation for Economic Cooperation and Development (OECD), which came to be called the Development Assistance Committee (DAC). It gets to decide what counts as aid and has become an influential voice in development debates.

Despite the focus on poverty and social lending in the debate that produced the IDA, its purposes – like that of the IBRD – make no mention of poverty. The IDA aims to 'promote economic development, increase productivity and thus raise standards of living…,' which will trickle down to raise standards of living (World Bank 1960, 2). This is not surprising as the IBRD played a key role in drafting the Articles and President Black promised that the ‘IDA will not be a “soft lender”’ (cited in Kapur, Lewis, and Webb 1997, 155). To protect the IBRD’s creditworthiness, the IDA was created under its own establishing agreement, which duplicates the IBRD’s with three changes: first, the Articles identify developed and developing countries and link countries’ access to the IDA to their status to ration its concessional resources, second, the IDA’s voting structure is slightly more favourable to developing countries, and, third, the IDA can fund social projects. Even though they have separate Articles and finances, the IBRD and IDA function as one institution.

By the late 1960s, the World Bank was largely focussed on assisting poorer countries, having reduced lending to rich states, and diversified sectoral loan allocations (Kapur, Lewis, and Webb 1997, 140). This did not happen just through the Bank’s own vision of course, but in the context of rapid decolonisation, demands from the Global South, and challenges to the Keynesian, welfare, modernisation development model. The IDA and retained IBRD earnings also facilitated expansion, though the big push took place under President McNamara (see Table 3.1), who turned his zeal for prosecuting the Vietnam War to combatting poverty or, to be precise, promoting redistribution with growth and later basic human needs. The Bank expanded into soft sectors including health, education, water supply, and agriculture. In a way, McNamara was re-inserting welfare into the Keynesian, welfare, modernisation model, but in a minimalist form with the focus on absolute poverty reduction rather than on equality and rights, which has continued to be the Bank’s focus. The basic needs approach increased the level of intervention in developing countries at the same time as bolstering the legitimacy of the Bank as a development agency (Rist 1997). It was, in Gramscian terms, part of the hegemonic struggle to shore up capitalist development combining coercive and consensual elements (Engel 2010).

From 1969, the Nixon Administration supported McNamara’s growth plans for the Bank, because they wanted to increase private US bank lending globally to centralise the role of the US dollar in international finance and hence shore up US hegemony (Gowan 1999, 22). The Bank was useful because of its role as a recycler of funds and signaller to private finance. In practice, basic needs lending expanded after 1974 when McNamara discovered the integrated rural development approach. By the later years of McNamara’s Presidency, the Keynesian consensus was under attack and neoliberalism and structural adjustment came to dominate the Bank, which is discussed in Chapter 4.

3.3 Sub-regional and general expansion of multilateral development banking

From 1960 to 1977, a further 18 MDBs were added to the system, ten of these in the 1970s. Only two were from Europe, the rest from the rapidly growing number of newly independent states. MDBs continued to grow too following the collapse of the Bretton Woods monetary order and the first oil shock in the early 1970s. Eight new MDBs were established between 1974 and 1979, indicating that they may even have been a response to the chaos generated by this time. This section explores the logic of this expansion linking it to geopolitics and development ideas, though given the number of actors, the section paints a broad picture, with the details of each MDB explored in later chapters.

After the IDA, the next MDB was from the Latin American region, which had fought for and won independence earlier than most of Africa and Asia. It was a sub-regional development bank (SRDB) and, like all the subsequent early SRDBs, it aimed to promote the integration and development of a sub-region. And growth of both regions and sub-regions were seen by structuralism as an instrument for promoting economic transformation (Bruszt and Palestini 2016). The Central American Bank for Economic Integration (CABEI) was established in 1960 by five Central American states, which were all members of the IADB. This makes it the first MDB established without the backing of a First World state. As part of their treaty on economic integration they established a SRDB to support sub-regionalisation, possibly taking inspiration from the European integration project and the EIB, but examining its purposes reveals clear influences from UN-ECLA and structuralism. As Chapter 7 outlines, CABEI's objectives start with the aims visible in earlier MDBs of regional development and balanced economic and social development but go on to specify that it will support projects and programmes in infrastructure, industry, and agriculture that benefit and modernise the region. Thus, it incorporated ISI in its objectives more directly than the IADB. Further, CABEI's subscriptions were not weighted, so founding states had equal shareholdings (Cochrane 1965), though this changed with the introduction of non-regional and non-founding member states, which quite a number of the smaller MDBs did in the 1980s, as discussed in the next chapter.

Several Soviet states created the International Bank for Economic Cooperation (IBEC) in 1964. It started as something closer to the IMF, but post-Cold War reforms saw it become an MDB. Next from what was then Communist Eastern Europe and Russia was the International Investment Bank (IIB) in 1970, a Soviet competitor to the World Bank. Its original aims are worth quoting as they are at one level so different from all the other SRDBs yet, at another level, they share the view of development as industrialisation and growth. It aims to provide:

> long-term and medium-term credits primarily for the implementation of measures relating to the international socialist division of labour, specialization and co-operation in production, expenditure for the broadening of the raw materials and fuels base in the common interest and the building of projects in other branches of the economy…
>
> (IIB 1970, 344)

The IIB's aims have since been changed quite radically, which is discussed in more detail in Chapter 7.

The 1955 Bandung Conference helped stimulate the idea of pan-Africanism, and five African MDBs were created between 1964 and 1975, the first an RDB – the AfDB in 1964 – and then four SRDBs. The AfDB followed the IADB's purposes in promoting accelerated economic and social development, and it also specified that development must be sustainable. Like CABEI, and inspired by NAM and Group of 77 (G77) agenda of seeking independent development, it was formed without any superpower or First World engagement (Culpeper 1997, English and Mule 1996, Mingst 1990). The four African SRDBs originally had only regional developing country membership as well and all arose from sub-regional integration efforts, which the UN Economic Commission for Africa (UN-ECA) played a key role in (Humphrey 2019). Many of the regional integration and trade agreements are no longer operational yet the MDBs remain. The SRDBs are the:

- East African Development Bank (EADB), formed in 1967 to support the East African Community (EAC);
- West African Development Bank (known by its French acronym, BOAD), established in 1973 as part of the West African Monetary Union (WAMU);
- Development Bank of Central African States (known by its French acronym, BDEAC), set up in 1975 to support the Central African Economic and Monetary Community (CEMAC); and
- Fund for Cooperation, Compensation, and Development formed as part of a second West African initiative – the Economic Community of West African States (ECOWAS) – in 1975; in 1999, it was renamed the ECOWAS Bank for Investment and Development (EBID).

All four African MDBs have standard SRDB purposes, although the EADB includes a role for regional promotion and BOAD has a strong focus on mobilising domestic resources. These SRDBs demonstrate the conflicting forces at play in post-colonial Africa of fragmentation and cooperation – as in Latin America, economic cooperation was seen as vital to post-colonial development. Mostly the African SRDBs financed infrastructure and small and medium enterprises to support industrialisation (Delikanli, Dimitrov, and Agolli 2018).

Following the AfDB, the next RDB was the AsDB established in 1966. It did not have anti-colonial credentials being proposed by Japan, then an emerging regional and global power. The US originally opposed the MDB's formation but later changed mind, seeing it as a way to contain perceived Soviet and Chinese influence by fostering regional growth and cooperation (Dent 2008, Kappagoda 1995). With Japan and the US as its major shareholders, it adopted much more pragmatic and capitalist language in its Charter with the aim of fostering 'economic growth and co-operation' in the region (AsDB 1967, 2). Like the World Bank, the AsDB now articulates a poverty-free region as its mission. The AsDB mirrored earlier MDBs closely from its inception, with the first President Takeshi Watanabe attending IBRD and IADB meetings to see how they were run before the Asian MDB began operations (McCawley 2012). Notably, there are no SRDBs in South or Southeast Asia, though a couple emerged that cover Central Asia later.

The next two MDBs established were again in the Latin America and Caribbean region *circa* 1970 with a further one added in 1974, bringing the regional total to five MDBs. The Caribbean Development Bank (CDB) was established in 1969 to support regional and local financial institutions and the development of regional capital markets as well as the usual SRDB goals. The innovation of building local financial markets harks back to the failed attempts at creating an Inter-American Bank and is a reminder of the recent development of public and private financial markets in some parts of the Global South. The CDB originally had 16 regional members along with Canada and the UK as non-regional members. While additional stakeholders have been added including China in 1998, the US is still not a member. The famous development economist Sir W. Arthur Lewis was the CDB's first president. Lewis was a key founder of classical Growth Theory which posited that states need to focus on growth, not redistribution, and that poverty was an employment problem, making it a suitable topic for economists (Engel 2019, Todaro 1985). His work on the need to transfer labour from the supposedly inefficient rural subsistence sector to the industrial high productivity sector was quite influential at the World Bank. The logic of most MDBs today is still to fund the enabling environment for this growth model, but the model has gaps and investments in industrialisation often came at a high human and environmental cost.

The Development Bank of Latin America (known by the Spanish acronym CAF) was established in 1970 and like the CDB it was tasked with 'providing multiple financial services to clients in the public and private sectors' in order to achieve regional integration and sustainable development (CAF 2015, 9). It started operations without member states from the Global North. USAID, Canada, the IADB, and a few European states provided resources early on but stopped, leading it to struggle to gain enough financial resources to operate until later restructuring (Humphrey 2016). The Financial Fund for the Development of the River Plate Basin (known since 2018 as FONPLATA Development Bank), followed in 1974 to support the River Plate Basin. It still has just five regional members: Argentina, Bolivia, Brazil, Paraguay, and Uruguay. It has a strong focus on studies and technical assistance, though they are also empowered to act as a financial agent or broker for loans for members (FONPLATA 2018).

Next in the MDB chronology is the Arab Fund for Economic and Social Development (AFESD). Its founding documents were prepared in 1968 but entered into force in 1972 and it was the first of a group of four diverse MDBs whose common feature is their Arab country-led shareholding. The Arab Fund is an SRDB with the rather pragmatic aim of '[f]inancing economic projects of an investment character… to public or private organizations and institutions, giving preference to economic projects that are vital to the Arab entity and to joint Arab projects' (AFESD 2016). While it is best understood as an SRDB, we have included it in Chapter 8 as a specialised MDB alongside the other Arab-led MDBs as they are an interrelated group that emerged after oil prices started to increase in 1971 (Corm 2006). The Arab Bank for Economic Development in Africa (BADEA) was established in 1973. It was a response to the increasing anger in the Third World about rising oil prices but also reflected the Arab desire to replace Israeli influence in Africa and promote Arab access to raw materials (Shushan and Marcoux 2011). It was the first development bank whose aim was to promote linkages between two regions, by providing financing and technical assistance. It was quickly followed by the Islamic Development Bank (IsDB) in 1974, which is a specialised bank operated in accordance with Shari'ah financial principles that ban the practice of interest. Its capital was subscribed in a new accounting currency, the Islamic Dinar (Delikanli, Dimitrov, and Agolli 2018). Its purposes are economic development and social progress, with the level of focus on human well-being standing out among the MDBs. It has stuck to its original, albeit broad, sectoral focus on transportation, infrastructure, energy, agriculture, and social infrastructure and not shifted with trends like policy-based loans, conditionality, or safeguards (Kellerman 2019). Its membership is not limited to Arab states but to those with a majority Islamic citizenry, making it a unique MDB.

Next came the Organisation of Petroleum Exporting Countries (OPEC) Fund for International Development (OFID) in 1976, which has the very pragmatic aim of promoting cooperation between OPEC member states and developing countries by providing financial support to the latter, making it a bit like BADEA. Its membership is again not limited to Arab states; indeed, Venezuela is the third largest shareholder. Looking at shareholdings in these Arab-led MDBs, Saudi Arabia is the largest shareholder in all except the Arab Fund where Kuwait has a slightly larger stake (Shushan and Marcoux 2011). Libya has large stakes in the BADEA and IsDB and is the third largest shareholder in the AFESD and sixth in the OFID, which is a left over from Muammar Gaddafi's activist Islamic socialist agenda of the 1970s.

It is useful to follow the Arab-led MDBs with the International Fund for Agricultural Development (IFAD), established in 1977, because Arab states also played a key part in its formation. Intellectually informed by calls for a New International Economic Order (NIEO) in 1974, it is based on an amalgam of Keynesian and structuralist ideas. IFAD's direct heritage is that of a challenge between OECD DAC donors and OPEC states in 1974 to each put up around $600 million for agricultural development in developing countries (Szasz 1999). This was following the early 1970s sub-Sahelian food crisis (Wihtol 2014) and a general increase in food insecurity aggravated by the 1973 oil shock. The negotiations took place in 1974 and 1975, just after the NIEO. IFAD's structure was coped from the World Bank, but its shareholder structure gave equal voting shares to three groups: DAC donors, OPEC, and G77 states. The G77 states argued very strongly that votes within each group should be equally distributed and not on the basis of contribution as DAC and OPEC states wanted (Szasz 1999). The compromise was that each group could decide how they distributed votes and elected board members. The DAC managed to constrain the organisation, however, by mandating that IFAD could not undertake project appraisals, instead having to rely on evaluations conducted by other financial institutions.

One final MDB was created before 1979, the Nordic Investment Bank (NIB), established in 1976. It had been discussed since the 1950s by the five Nordic states – Denmark, Finland, Iceland, Norway, and Sweden – but a more favourable political climate and the oil shocks provided the needed impetus (Dennis 2015). It was set up simply to supplement existing institutions and finance and notably did not have a mandate for sub-regional projects.

Overall, by 1979, there were 22 MDBs. MDB creation was very high in Latin America (five banks) and across much of Africa (five banks), excluding the southern states where apartheid South Africa still exerted hegemonic influence. There were three banks established in Europe including the very large EIB, four Arab-led banks, and just one Asian MDB. But by 1979, state debt in many developing countries had already started to build up to problematic levels, and this enabled the emerging neoliberal doctrine to be imposed on states through loan conditionality, which is discussed in the next chapter. But to conclude this one we explore the debt crisis.

3.4 MDBs, debt, and the developing world debt crisis

Using debt to finance investments was a key part of the post-war Keynesian, modernisation, welfare model, which the MDBs were a key part of. But they face a unique situation, having a limited clientele and, as detailed in Chapter 5, their non-concessional lending arms need credit-worthy borrowers to get good credit ratings, which allows them to borrow cheaply on financial markets and on-lend. Still, with a limited number of borrowers, MDBs often become debt-pushers. If they do not keep pushing new loans out the door, they run into the problem that borrowers are paying back more than is being lent in new loans. This is called the negative net transfer problem. For most countries, MDBs are not their largest creditors but as Chapter 1 outlined, they play a range of roles in the development finance system. Their role expanded over the decades, with the World Bank at the centre thanks to its repository of data and reports. After the first debt crisis, the World Bank also became a debt collector and lender of last resort.

Development banks walk a fine line between pushing debt and worrying that recipients have too much of it. Debt was a challenge in some countries as early as the 1950s; a number of Latin American states had existing debt portfolios and they had faced two large debt crises in the 19th century and one in the 1940s as we saw in Chapter 2. The World Bank rescheduled loans to Haiti in the 1950s on balance of payment grounds and in 1965 made two loans to Brazil to cover the maturities due on earlier loans (Kapur, Lewis, and Webb 1997). India's debt problems were notable from the mid-1960s, but it was cushioned by its high level of access to the highly concessional IDA, becoming its largest borrower; the IDA was colloquially referred to as the Indian Development Association. The IDA add-on enabled the IBRD to reduce its exposure to India and undoubtedly India only met some IBRD and other obligations thanks to IDA credits. Nevertheless, India asked the World Bank to lead a rescheduling in 1966 (Kapur, Lewis, and Webb 1997).

A large debt build-up occurred in the 1970s bolstered by low interest rates and financial innovations beginning with the Eurodollar market and syndicated loans, where a group of banks lends to a borrower. The oil price hikes of the 1970s had very negative impacts on oil importing developing countries by increasing their costs and reducing export prices, meaning they had to borrow to cover the immediate costs of the shock. The oil shock created large revenues for oil exporters called petrodollars and these, along with the end of the fixed exchange rates system, contributed to a large increase in liquidity in private banks. Like MDBs, private banks need to on-lend their funds to pay interest to depositors. Developing countries offered a seemingly lucrative market and there was profligate and very large scale lending (Bracking 2009, Scammell 1983). Debt accumulation was largest in Latin America with several sub-Saharan African countries following suit. On average, debt-to-GDP ratios for low-income countries increased from 13% in 1970 to 46% in 1982 (Kose et al. 2020, 62). Loans were also made to what can only be described as illegitimate, odious, or corrupt regimes (Toussaint 2019). And too many projects did not benefit local populations, or caused too much environmental, social, or human rights harm. Legal and illegal capital flight was a particular problem, as Caufield (1998, 132) noted, the 'amount of money that left the Third World during the lending boom is staggering. The World Bank estimates that between 1976 and 1984, capital flight from Latin America equalled the increase in the continent's external debt.'

The World Bank under McNamara had a liberal approach to debt and expanded Bank lending while encouraging developing countries to expand their access to private finance (Caufield 1998, George and Sabelli 1994, Toussaint 1999). The South was creating their own MDBs too, further expanding debt relations. While private sector lending accounted for most of the debt, MDBs signalled that countries were credit-worthy. It seemed for a time like the lending would be sustainable, though that was illusory. The immediate triggers for the debt crisis were the second oil shock in 1979 and the Volcker shock of 1981. The second oil shock led to a recession that hit the exports of developing countries very hard. Developed countries tightened their fiscal and monetary policy leading to increased interest rates globally and increased debt service payments. Paul Volcker, then Chair of the US Federal Reserve, almost doubled the US federal funds rate in 1981 to 20%, in what is often referred to as the Volcker shock. Given the power of the US dollar, it effectively sets global interest rates, still US banks also directly held 37% of the $600 billion developing country debt (Bracking 2009). In 1982, amid a global recession partly bought on by the Volcker Shock, Mexico defaulted on its loans. Quickly thereafter most private lending to developing states stopped and the debt crisis began. Some 40 states found themselves in arrears, 27 had to restructure debts and 16 of those were in Latin America and the Caribbean (Kose et al. 2020).

The IMF, World Bank, and larger MDBs thrive in financial crises. Borrowing increases and private finance looks to them as debt collectors and as a safe place to invest. In the 1982 crisis, the debt deals turned private debts into public ones; the private banks were largely paid and even received large fees for loan rescheduling. The Bank and other MDBs took on a larger share of developing country debt and became the global system's main debt collectors. They had done this in part using what George and Sabelli (1994, 55) aptly called McNamara's 'parting gift' to the World Bank: structural adjustment loans. These enabled the principles of the new Washington Consensus to be enforced upon developing countries with ferocity.

3.5 Conclusion

This chapter shows how MDBs were created during the modernisation or Bretton Woods era, which had a relatively non-financialised banking system in response to the excesses of the late 19th and early 20th centuries. The Cold War political context was a key factor in many of the MDB creation – many larger MDBs were created by the Western block and the US as the political hegemon of the time had to be supportive or at least not obstructive. The Soviet Union played a similar role for states then in its sphere of influence, but it was not as interested in MDBs and only the IBEC and IIB were established in its sphere. Some of the MDBs in Africa and Latin America reflected more structuralist development ideas.

The MDBs were designed to meet one of the shortcomings of capitalist finance; private banks can be risk averse, particularly in developing country contexts, and so national and multilateral development banks were meant to provide an alternative way to boost investment. However, the MDBs played a role in the growing financialisation of the 1970s by encouraging lending to the Third World and setting standards for it as well as by promoting new financial instruments, so they were a contributor to the developing country debt crisis. Financialisation took off during the 1980s, which is where Chapter 4 takes up the story: MDB creation in the neoliberal era.

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4 Development thinking, debt, and the multilateral development bank system: 1980–2020

This second chapter on the evolution of the multilateral development bank (MDB) system starts in 1980 when neoliberalism captured the global political economy including the World Bank and other large MDBs. It journeys through a range of modifications to neoliberalism leading to the current era, which we call retroliberal following Murray and Overton (2016). There were nine MDBs established in this period, eight still functioning, thus by the end of 2020, there were 30 functioning MDBs, several with multiple financing arms. As with Chapter 3, the emergence of and shifts in the MDBs are linked to three factors: geopolitics, development discourse, and debt relations.

This chapter is divided into three periods, each linked to a major debt crisis that can be associated with calls capitalism's need for spatial fixes (Harvey 2010). The first period was high neoliberalism or the Washington Consensus era; it lasted from 1980 to 1997 and began and ended with debt crises. At the start, the Third World debt crisis saw large MDBs become debt collectors and impose the new orthodoxy of free markets, free trade, small government, and individual responsibility on recipient states. Only a few MDBs were created during this period, including the only MDB with a pro-democracy, pro-market mandate: the EBRD. The Washington Consensus era ended with the 1997 Asian Financial Crisis, by which time the social costs of fundamentalist neoliberalism had become too great, including increasing poverty and social inequalities. The post-Washington Consensus era of 1998–2009 was the response to the problems of orthodox neoliberalism. Poverty reduction seemed to replace economic growth at the top of the development agenda, supported by the 2000 MDGs and, later, the 2015 SDGs. However, the term *post*-Washington Consensus highlights the continuities with neoliberalism – the focus on growth and private markets had not disappeared and the poverty-reduction agenda was ultimately rather minimalist; still, there was a sense that the development agenda had become more progressive. This period saw the rise of China and leftist movements in Latin America, which resulted in an increased focus on the role of the state and new development paradigms aimed at challenging the Washington Consensus. The era closed when debt expansion in the US and Western and Central Europe achieved critical mass in the 2007–8 GFC.

The GFC changed development discourse, but not as significantly as would be hoped. The moniker *retroliberal* for the period 2010–20 highlights that policy responses to the GFC mostly shored up the position of capital over labour by socialising private losses while maintaining the privatisation of gains. Financialisation was only reined in for a brief moment, before again being unleashed in another example of how the practices of neoliberalism adapt to circumstances (Cahill 2014). Still, a more state-centric, nationalist era has emerged. Aid and development finance are again viewed in terms of the benefits they provide to donor states' firms rather than to poverty reduction. Further, in large part thanks to Chinese interests, infrastructure is again a key focus for development finance, which is a return to modernisation era thinking along with the revised fixation on economic growth. Hence the retro prefix makes sense; it hints at the retrospective and retrograde elements of development discourse in 2020, with the MDBs again at centre stage after having taken somewhat of a back seat during the early 2000s.

A major danger of this shift is its impact on debt. Already prior to the 2020 Coronavirus crisis, the IMF and World Bank were warning of growing debt, with the Bank calling the build-up of debt in EMDEs from 2010 to 2018 the 'largest, fastest and most broad-based increase' in the past 50 years (Kose et al. 2020, 111). COVID-19 is causing further debt build-up and may trigger a debt crisis, whereas the usual triggers of the past 50 years were financial or banking crises. It is an emerging context, yet it seems rather clear that the MDBs are again going to be key players in another debt crisis.

The three eras explored in the chapter each follows the same structure: first, changes in developing thinking are briefly analysed, second, changes in the World Bank are outlined, followed by a third section on changes in the other MDBs, and a fourth analysing the growth of new MDBs in each era.

4.1 The Washington Consensus era: 1980–97

The global shift from the Keynesian, welfare, modernisation model to neoliberal structural adjustment – or austerity politics – must be told in conjunction with that of the IMF and World Bank. This is because the policy prescriptions associated with this neoliberal approach were negotiated between the US and the Bretton Woods twins in Washington, DC, and hence are called the Washington Consensus (Williamson 1990).

The policies reflected the resurgence of a strand of neoclassical economics propounded by scholars like Friedrich von Hayek and Milton Friedman, which rejected the post-war consensus and instead promoted the moral and economic priority of individuals and markets over society and the state. It was a broad project ushered in by a new politico-economic climate with the election of Margaret Thatcher in the UK, Ronald Reagan in the US, and Helmut Kohl in West Germany. There were neoliberal regimes elected or imposed through coups and other non-electoral mechanisms around the world, for example, the Augusto Pinochet regime in Chile. Multinational corporations promoted neoliberal approaches in ways that benefitted them. In Gramscian terms, neoliberalism's spread was through both consent and coercion. In examining the practices of governments, it is important to remember that they have been happy to implement a range of policies that are not always immediately in keeping with neoliberalism or may not appear to be neoliberal, but this pragmatic approach reinforces the legitimacy of that state and often serves particular capitalist interests. In the wake of financial and banking crises, the GFC being a case in point, governments have often resorted to Keynesian-type policies, but generally only as a temporary measure in order to deepen neoliberalism in the long run (Cahill 2014).

The Washington Consensus clustered around three broad commitments: macroeconomic stability, outward orientation, and domestic liberalisation (Fine 2001). In the early years, it tended to be implemented in two phases: first, short-term macroeconomic stabilisation carried out quickly via 'big bang' reforms, which was the focus of IMF programmes; and, second, long-term exhaustive microeconomic reforms including trade liberalisation, privatisation of state-owned enterprises, and then later utilities, changes to taxation, land titling to make land more easily alienable, labour market reform, and deregulation of banking and capital movement (Chossudovsky 1997). This latter programme tended to be implemented jointly by the IMF, World Bank, and RDBs. The Washington Consensus was based on a 'profoundly cynical view of the state in developing countries' (Toye 1993, 135).

The Third World debt crisis provided the IMF and World Bank the opportunity to implement neoliberal policies as loan conditions, which often supported US hegemony and made the Global South structurally more open to US goods and finance (Gowan 1999). As time passed, there was variation in the Bank's approach, mostly prompted by the failures of neoliberal austerity policies. The number of people living under the absurdly low $1 per day international poverty line increased in many regions. The 1980s were thus labelled the lost decade for developing countries, particularly those in Latin America and sub-Saharan Africa. For much of Africa, the debt crisis was not resolved until the late 1990s. In Latin America, where the 1980s debt relief schemes were targeted, growth remained low. The debt management processes also saw the Paris Club and multilaterals holding an increasing share of EMDE debt and the new loans they provided were often used to pay arrears on private sector debt.

There were two early additions to the Washington Consensus to try to improve performance. One was good governance, which initially meant multi-party elections but was expanded to include anti-corruption initiatives and the adoption of Western budgetary and auditing systems. The second was a focus on poverty and minimalist social safety; arguably without some focus on poverty, neoliberalism was in danger of collapsing. In 1990, the World Bank's influential World Development Report was grandly titled *Poverty* and on 31 December 1991, poverty appeared in the Bank's mission statement (Kapur, Lewis, and Webb 1997). Poverty reduction is the neoliberal alternative to redistribution and social democratic welfare systems because it is a minimalist idea that defines equity and equality as getting people above the international poverty line – now at $1.90 a day – and no more. It posits that getting out of poverty mostly involves individual pursuit of increased productivity (Cammack 2004) and re-awakens the distinction between the deserving and undeserving poor. In 1990, the UN Human Development Reports first appeared too, demonstrating a re-emergence of the UN system in development space, as a timid challenger to World Bank.

The literature on the empirical and theoretical failures of the Washington Consensus increased over the 1990s. GDP in Latin America only returned to its pre-debt crisis level in 1993 (Kose et al. 2020). The IFIs 'big bang' reform approach in the former Soviet Union was a failure as was their response to the 1997 Asian Financial Crisis. This 1990s debt wave was mostly in East Asia and some other emerging economies and was predominately caused by an upsurge in private sector debt following liberalisation and deregulation, while the Brady bonds created as part of the resolution of the Latin American debt crisis stimulated the development of sovereign bond markets in developing countries. In the case of the Asian Financial Crisis, former World Bank Chief Economist Joseph Stiglitz (2000, 60) concluded that the IMF's response made the crisis 'deeper, longer and harder.' Sustained pressure on the Bank led it to claim by the late 1990s that it had moved beyond the Washington Consensus. What emerged, however, was merely a modified post-Washington Consensus.

While neoliberalism reigned at the World Bank, in academia in the 1980s and 1990s there was a flourishing of critical development approaches. These came from eclectic fields: concerns about the negative impact on women of the development project evolved into a sophisticated literature on gender and development; the environmentalist movement expanded, focussing attention on sustainability; scholars and activists highlighted the importance of grassroots concerns and indigenous knowledges; structuralism and Critical Theory continued to unpick the material interests at work behind development interventions; and, and the post-development school inspired by Foucault and post-structuralism explained the extent to which development was a neo-colonial and Eurocentric project that needed to be challenged from the grassroots (Willis 2005). The debate around gender, participation, and the environment were all taken up by the Bank, other MDBs, and the wider development community, though mostly in instrumentalist ways that ensured an expanded commitment to neoliberalism.

4.1.1 Key developments at the World Bank

At the World Bank, Reagan appointee Alden Winship Clausen ensured a neoliberal agenda was followed, though given that the organisation had been shaped by bankers, the shift was not always large (Engel and Bazbauers 2020). The initial debt crisis response plan – the 1985 Baker Plan – involved the IFIs and private banks providing additional resources to debtor states in return for structural adjustment. The 1989 Brady Plan also leveraged Bank resources and demanded further structural adjustment, so that the Bank became a key player in debt management (George and Sabelli 1994, Woods 2006). Developing country debt increased during the 1980s and more of it was owed to IFIs than to private sources (Bello 1994). Average annual Bank commitments grew from $5.36 billion in 1970–79 to

$15.69 billion in 1980–89 and $22.03 in 1990–95 (Kapur, Lewis, and Webb 1997, 6), increasing Bank leverage over borrowing countries.

The World Bank's environmental failings started coming home to roost during Clausen's presidency. The infamous Polonoroeste project paving 1,500 kilometres of highway through Brazil's Amazon resulted in mass deforestation and immiseration of the local Amerindian tribes. The bad press for the Bank was a factor in the establishment of its first environment department in 1987 (Rich 1994). That did not stop them financing the Narmada Sardar Sarovar dam in India starting in 1988 that produced one of the world's largest social movements up to that time. Despite its very poor environmental track record, the Bank became one of the chief operational arms of the Global Environmental Facility (GEF) established in 1992. The issues of the MDBs and the environment are discussed further in Chapter 10. The Bank introduced an Inspection Panel in 1993 for project affected persons to have their concerns heard, with the US playing a key role in its establishment (Park 2017). Over the next decade, the AfDB, AsDB, IADB, and EBRD all adopted similar accountability mechanisms due to a combination of US pressure, institutional isomorphism, and pressure from civil society organisations (Park 2014, Uhlin 2016). This is evidence of an interconnected MDB system.

The period from 1980 to 1997 saw three one-term World Bank Presidents – Clausen, Barber Conable, and Lewis Preston – and their key contributions and major events are outlined in Table 4.1.

Table 4.1 World Bank Presidents 1981–95

Name and term	*Background*	*Legacy*
Alden Winship Clausen 1981–6	Born in US, attended Carthage College and University of Minnesota, lawyer, banker.	Led the Bank during the 1980s recession and developing world debt crisis. Strong focus on neoliberal free markets, structural adjustment, and coordination with the IMF. These policies damaged the Bank's global reputation. Priority investment areas were agriculture, energy, and sub-Saharan Africa. Introduced innovations in guarantees and co-financing with commercial banks. The Bank's poor environmental standards became a focus of NGOs and media.

Name and term	*Background*	*Legacy*
Barber Conable 1986–91	Born in US, attended Cornell University, short legal career, long-term Republican politician first in New York state then House of Representatives.	The US' refusal to ratify Clausen's last budget forced Conable into a major, disruptive reorganisation, vacating all positions. The cuts reinforced dominance of neoliberal ideas in the Bank. He established the Bank's first environment department in 1987 and started negotiations on the GEF. Conable gained approval for a large IBRD capital increase in 1988 and IFC in 1991. Strengthened focus on poverty but in ways that promoted privatisation and proletarianisation. The Bank became increasingly involved in debt management.
Name and term	Background	Legacy
Lewis Thompson Preston 1991–5	Born in US, served as a Marine during WWII, attended Harvard University, long banking career with JP Morgan.	Reaffirmed the Bank's poverty focus and took a pragmatic, client-focused approach to management. Commissioned Wapenhans Report, which showed declining project quality inside the Bank. Established the Inspection Panel in 1993, and GEF had the Bank as a key administrator; Preston said development and environmental protection were complementary. Indigenous issues and resettlement gained attention after the disastrous Sardar Sarovar project in India; the Morse Commission report on it was prototype for the Inspection Panel. 24 new members joined IBRD and 20 IDA after collapse of USSR and many obtained loans.

Source: Compiled by authors from a range of sources, basic details from World Bank website (2019).

4.1.2 Key developments in other MDBs

Several MDBs were restructured in this era in response to either the debt crisis or the exigencies from the crises of the 1970s and the growth of globalised finance. Others, particularly the RDBs, became partners in pushing Washington Consensus policies on borrowing states (Babb 2009). Given the debt crisis centred on Latin America and the Caribbean, the IADB became a key player. In the Latin American RDB, there was a dramatic increase in their equivalent of adjustment programmes, indeed the US demanded that 25% of resources were devoted to such loans (Babb 2009, Kellerman 2019). There was also an increasing politicisation of lending policy, which regional member states protested with little success (Kellerman 2019). A large capital increase followed in 1988, so by 1994 it had become the region's main source of development financing. The IADB added new private sector financing and insurance arms in this period too.

The SRDBs in the region struggled, with CABEI losing its ability to remain a regional member-only MDB (Cevallos 1996); the first non-regional members were Taiwan and Mexico in 1992 and Argentina and Colombia in 1995 and 1997. In 1990, CAF also started expanding its membership to include 12 additional countries from Latin America and the Caribbean as well as Spain and Portugal and then 13 private regional banks because its 'finances were in a precarious state' (Humphrey 2016, 104). In order to renew its effectiveness and relevance, CAF restructured its corporate model to resemble the World Bank and IADB and hired consultants 'from Coopers and Lybrand and a former World Bank vice president to review the CAF's operations and make recommendations for overhauling internal process' (Humphrey 2016, 104).

Most of the African SRDBs were greatly affected by the economic downturn of the 1970s and this spilt over into the 1980s and even 1990s. Problems were compounded by failed member integration, lack of political commitment to regional actions, loan non-repayments worsening portfolio performance, reluctance to borrow from foreign donors, and deteriorating economic conditions in Southern Africa (Mistry and Kritzinger-van Niekerk 1998). The situation was so problematic for the EADB that it was almost dissolved during the late 1970s and early 1980s. The African SRDBs started admitting new members during the 1980s. Importantly, it was not just new non-regional member states but also MDBs, IFIs, national development banks, and even private banks, though the shareholdings tended to remain small.

The European-based MDBs were not particularly impacted by the debt crisis, and the Arab-led banks were setting up and expanding. The IsDB, in line with its distaste for conditionality, never offered structural adjustment programmes or policy-based lending (Kellerman 2019). Asia was also not hit particularly hard by the debt crisis and the AsDB slowly expanded, propelled by the addition of China as a borrower in 1986. The Asian RDB also started lending to the private sector in 1983, mirroring Washington Consensus trends. In regard to the specialised development banks, IFAD was restructured in 1995 making it more like the World Bank (Szasz 1999), and the NIB became a development group with the establishment of the

Nordic Development Fund (NDF) in 1989, which is a regional financing mechanism linking Nordic countries to developing states.

4.1.3 New MDBs

MDB creation slowed but did not come to a standstill during the Washington Consensus era; five new banks were created between 1980 and 1997, though the Development Bank of the States of Great Lakes (BDEGL) established in 1980 was not operational long. It was another African SRDB founded to support a regional economic community, the Economic Community of the Great Lakes Countries. It was proposed in 1977 and became effective in 1980 and included two non-regional members: Belgium and the AfDB (The New Times 2009). Conflict between its regional member states of Rwanda, Burundi, and the Democratic Republic of the Congo led to its collapse in 1993. Discussions were held in 2009 about re-opening it but little seems to have happened.

The next MDB was the first of a sub-group of SRDBs focussed on trade and development, which combine the functions of an MDB with a multilateral version of national export-import banks. They are often focussed on regional infrastructure. The Eastern and Southern African Trade and Development Bank (TDB) was established in 1985. It came out of African regional integration efforts, and then called the Preferential Trade Agreement (PTA) of Eastern and Southern Africa – now called the Common Market for Eastern and Southern Africa – so it was initially called the PTA Bank. Southern Africa had remained outside earlier regional integration programmes but with Zimbabwe’s transition to majority rule in 1980, the door opened for expansion south.

The Pacific Islands Development Bank (PIDB) came next in 1989. It was established by a group of US-associated states in the Pacific, which worried that the US was going to end aid (Mak and Naya 1994). Despite its name, it only covers Micronesia and not any of the Polynesian or Melanesian Pacific Island states. Most of those states were already members of the AsDB, which has been the Pacific’s ‘principal multilateral development finance institution,’ even though most Polynesian and Melanesian states are also members of the World Bank (Mak and Naya 1994, 36).

Established in 1991, the EBRD came in the wake of the collapse of communism and at the height of neoliberal fervour. It has the most political and neoliberal aim of any MDB, which is ‘to foster the transition towards open market-oriented economies and to promote private and entrepreneurial initiative in the Central and Eastern European countries committed to and applying the principles of multiparty democracy, pluralism and market economics’ (EBRD 2013, 4). Indeed, the EBRD is the only MDB with an explicitly political mandate. Its region was extended to include Mongolia and the Southern and Eastern Mediterranean after 2006, which has expanded its lending. It has adopted a persona more alike a commercial bank than a traditional MDB (Babb 2009), but it still operates as an MDB. It is the smallest of the RDBs but may benefit from an InvestEU programme that was being legislated in 2020.

The second trade and development bank of the period was the Black Sea Trade and Development Bank (BSTDB), which was established in 1997 and became operational in 1999. Like all SRDBs, it was linked to a regional cooperation forum and has as its first goal assisting the transition of member states towards economic prosperity as well as promoting regional projects and banking services. It originally thought that trade finance would be its bread and butter; however, its portfolio is dominated by project loans either directly or through financial intermediaries (BSTDB 2019).

The continued growth of MDBs during this period demonstrates that they were not incompatible with neoliberalism, indeed the EBRD was a neoliberal-inspired creation. Still, most MDBs were bound up with postcolonial developmentalism and, as this slowed, so too did the creation of new banks.

4.2 The Post-Washington Consensus era: 1998–2009

The post-Washington Consensus era began following the Asian Financial Crisis and it saw a large shift in the global aid agenda with a big push for debt forgiveness and poverty reduction resulting in increasing the concessional resources available to developing countries and developing country ownership of development pathways through the Aid Effectiveness

Agenda. Politically, the shift built on the rise of large progressive social movements and centre left parties like those of Bill Clinton in the US (1993–2001) and Tony Blair in the UK (1997–2007), whose minimally progressive agendas were friendly to globalisation (Mawdsley et al. 2018). Large social movements included the anti-globalisation movement peaking in the Battle for Seattle in 1999, the landmark protests in Cochabamba, Bolivia against privatised water price hikes in 2000, and the Make Poverty History coalition. Economically, the growth of China and relative stability globally meant many developing regions started to emerge from the austerity-induced recessions of the 1980s and early 1990s. It is a mistake, however, to think that there were no crashes: Brazil in 1999, the dotcom bubble burst of 2000, and Argentina in 2001 were three of the largest and the pre-conditions for the next regional debt crisis began with the build-up of private sector debt in the US and Europe, leading to the GFC.

Ideationally, the MDBs drew mostly on the New Institutional Economics (NIE) strand of mainstream economics. NIE was an attempt to build on neoclassical economics by incorporating a theory of institutions (North 1998). By significantly expanding neoclassical analysis of market failures to include information failures and transaction costs, NIE produced a picture of markets as subject to extensive imperfections, in contrast to the neoliberal idea of perfectly functioning markets (Fine 2001, 2005). As Greenwald and Stiglitz (1986) outlined, this means that government intervention could be efficient in many more cases than neoliberal doctrine allowed. Stiglitz was World Bank Chief Economist from 1997 to 2002 but was fired for his somewhat unorthodox views, though his influence lived on. His review of neoliberal 'big bang' capital market liberalisation concluded that if attention was not given to the order and timing of reform, programmes can cause more harm than good (Broad 2004, Stiglitz 2002).

Beyond NIE, the Developmental State and Neostructuralist literature were important parts of the broader context of development thinking, drawing a critical eye on the failings of the Washington Consensus. The Developmental State literature, analysing the rapid post-war development of Japan, South Korea, Taiwan, Singapore, and Hong Kong, emerged in the early 1980s and had some impact on the post-Washington Consensus. This literature highlights that active states utilising macroeconomic and industrial policies, run by a developmental elite shielded to a degree from political competition, had been able to achieve high levels of industrial transformation and economic growth (Amsden 1989, Thurbon 2016, Wade 2018). One of the most successful development states, Japan, sought to have the World Bank acknowledge the role of the state and industrial policy in development, funding a Bank report titled The East Asian Miracle (1993) to recognise this. In the editing of the report, however, the role of the state was watered down to the point that the neoliberal development paradigm emerged unscathed (Wade 1996). Developmental States certainly influenced the AsDB. Neostructuralism in Latin America similarly aimed to challenge neoliberal dogma but still cast market forces as the primary driver of development, adding that without attention to policy and institutional interventions focussed on equity, markets would not flourish (Leiva 2008). Like the Development State literature, Neostructuralism created space for thinking about the role of the state in development, an important contributor to the unfolding post-Washington Consensus.

Despite these new approaches, the practice of the post-Washington Consensus generally extended the neoliberal approach to constraining the state in both monetary and fiscal policy and through devolution of power to statutory bodies like central banks (Carroll 2010, Engel 2010, Wade 2001,). Regulation and other mechanisms were utilised to create more space for private markets, not states. Curbing state – but not private sector – corruption became a major focus, which was linked to the existing good governance agenda, thus many MDB projects targeted 'reform' of government financial and auditing systems. In later years, the focus was on deepening marketisation through tendering out of activities once performed by the state in everything from infrastructure to healthcare, education, and welfare.

Still, the post-Washington Consensus had a stronger focus on absolute poverty reduction than its predecessor and some focus on the social costs of adjustment. It offered a more progressive approach to health and education investments by state and markets, though in practice did little to support these. The World Bank and other MDBs claimed to have abandoned one-size-fits-all approaches to development and created tailored country programmes, found in country programming documents. These frameworks were meant to be based on recipient government ideas as local ownership was a key element of the post-Washington Consensus.

The focus on poverty and local ownership was formalised in two international agreements that became a key part of the 2000s aid consensus.

The first was the MDGs and the second the Aid Effectiveness Agenda. Both came out of the OECD DAC and, despite some progressive overtones, they represented the Global North shaping the global justice agenda. The OECD DAC started work in the area in 1995, but the work was initially done by a group of all male, rich country development politicians and bureaucrats whose focus was on practical issues of projects and policies, hence the use of results-based management with target-setting (Hulme 2009). Through years of politicking, a series of international development goals, as the DAC called them, evolved into the eight MDGs comprised of numerous targets and indicators approved by the UN Millennium Assembly held in 2000. The MDGs became a unifying framework for the MDBs and former World Bank President James Wolfensohn referred to them in 2002 as 'the hymnbook that we're singing from now' (cited in Bissio 2003, 157). Yet, as Saith (2006) argued, the MDGs were embedded in profoundly inegalitarian neoliberal relations and they sought not to change these, but only address the issue of absolute poverty. This is clear from the fact that the first MDG was to reduce the proportion of people living below the international poverty line of $1 a day, an accounting illusion that did not actually provide enough to allow people an average life expectancy (Hickel 2016).

The Aid Effectiveness Agenda emerged from the DAC, along with key statements made at High Level Forums in Rome (2003), Paris (2005), Accra (2008), and Busan (2011). The Agenda was a practical plan focussed on improving the quality and impact of aid policy and programmes and focussed on the practices of both donors and recipients. Ultimately a technocratic schedule devised by the Global North-led DAC (Booth 2008), the OECD (2011) itself acknowledged that donors did not progress the agenda as much as recipients. Nonetheless, all the larger MDBs and several smaller ones participated in Aid Effectiveness programmes, 13 out of the then 28 MDBs aligning behind institutional standards of behaviour. Notably, a few of the Arab-led MDBs were involved in these programmes but none of the smaller African SRDBs and only one of the Latin American SRDBs, the CDB.

4.2.1 Key developments at the World Bank

Clinton-appointed President James Wolfensohn oversaw the World Bank's transition to the post-Washington Consensus and expanded the poverty-reduction mission (see Table 4.2). Under Wolfensohn, the phrase 'Our dream is a world free of poverty' was grandiosely carved into the entrance of the Bank's refurbished headquarters in 1996 (Marshall 2008, 54). The Bank retained poverty reduction as its overarching mission since, even during the presidencies of conservative US Republican Party appointees Paul Wolfowitz and Robert Zoellick. Still, as Cammack (2004, 197) argued, Wolfensohn's Bank promoted the 'sustainable reproduction of capitalism' by ensuring micro-level incentive structures were in line with neoliberal macroeconomic ones. Wolfensohn further attempted to maintain the Bank's hegemony by shaping developmental thought through programmes like the Knowledge Bank initiative in 1996, designed to make the Bank the leading provider of development expertise, and the World Bank 'Doing Business' series starting in 2004, which reported on the ease of doing business in states across the globe and has been very influential (Banerjee et al. 2006). He also renamed structural adjustment loans as development policy loans in 2004 to distance the Bank from the most ideological aspects of the Washington Consensus (Bazbauers 2018). The Bank also helped launch the Heavily Indebted Poor Countries (HIPC) initiative for debt relief in 1996, although debts to the Bank were exempt until the 2005 Multilateral Debt Relief Initiative, to protect its preferred creditor status and credit rating. Despite progress, the conditions on debt relief advocated neoliberal prescriptions like limiting public expenditure and prioritising debt servicing over other needs.

World Bank lending spiked in 1998 and 1999 in response to the Asian Financial Crisis from an annual average of $22.03 billion in 1990–5 to $27.8 billion but rapidly declined to $15.3 billion in 2000. Yet, MDBs need to lend, so they steadily grew again to reach $24.7 billion in 2008, with the GFC then causing a further spike in loans. The relative stability of the 1999–2007 interregnum was not great for the IMF or Bank as their customers were reducing debt or able to borrow with few conditions and at competitive rates from other provides. Indeed, many countries were building foreign reserves explicitly to avoid having to turn to the IMF in the future. Still, the Bank remained vitally important to many smaller and poorer countries whose access to private finance was limited.

Co-financing expanded World Bank lending. This was mostly with official bilateral and multilateral partners. Between 1996 and 1999, co-financing ranged between 33.9% and 40.1% of the value of bank loans. As Bracking (2009) argued, these linkages highlight that there is not just an MDB system, but rather a system of interlinked development finance institutions. Still, an indication that MDF and the MDBs declined in influence over the 2000s was that by 2007 Bank co-financing was equal to just 25.5% of operations. Bank lending to the financial sector increased during this period through all three of its lending arms, particularly the IFC. Leading up to the GFC, the Bank was quite exposed to asset- and mortgage-backed securities, though the IADB was far more exposed (Kellerman 2019).

Table 4.2 World Bank Presidents 1995–2007

Name and term	*Background*	*Legacy*
James Wolfensohn 1995–2005	Born in Australia, acquired US citizenship specifically to gain the World Bank presidency, attended University of Sydney and Harvard Business School, investment banker with interest in arts and music, known as the 'Renaissance Banker.'	Launched the HIPC in 1996 along with the IMF Managing Director. He focused on corruption before the Asian Financial Crisis and more so after with institutional mechanisms established in 1999. This crisis highlighted the Bank's lack of inclusion, participation, and the shallow nature of its poverty reduction agenda, and they became key parts of the post-Washington Consensus along with influences from NIE. The 1997 Strategic Compact reform was designed to gain more resources for Bank in return for a streamlined institution. Launched the Comprehensive Development Framework and PRSPs in 1999 as frameworks for country lending and later as mechanisms for implementing the MDGs.

Name and term	Background	Legacy
Paul Wolfowtiz 2005–7	Born in US, attended Cornell University, obtained PhD from University of Chicago, held a number of government appointments for Republican administrations.	Wolfowitz was a political appointee from the Bush administration, which did not support the Bank. Had a tumultuous relationship with the Bank Board. Focused on anti-corruption but forced to resign after giving his partner a position with a high salary.

Source: Compiled by authors from a range of sources, basic details from World Bank website (2019).

4.2.2 Key developments in other MDBs

The AsDB took an active response to the Asian Financial Crisis, but some of its IMF-style policies led to backlash. It adopted poverty reduction as its mission in 1999, predating the World Bank. It was partly the result of pressure from the US Treasury, which forced the Asian MDB to put a much greater share of its funds into social and environmental projects than it had in the past (Babb 2009). The AsDB and most of the RDBs adopted and expanded safeguard mechanisms to protect project affected people from harm, which has helped ensure loans benefit local communities, though many problem projects are still funded. The RDBs increased inter-agency harmonisation too and engaged with new financial instruments following the World Bank's lead.

The post-Washington Consensus era was a solid period for many of the sub-regional and specialised development banks. The smaller MDBs that would become influential during the 2010s began their expansion circa 2000, the CDB and CAF being two examples of this change in fortune, following organisational restructurings implemented during the 1990s. The focus on the private sector expanded in many smaller MDBs, for example, the AFESD's Board of Governors approved a revision of the MDB's Articles of Agreement in 1997 to better support the Arab private sector (AFESD 1997).

In Europe, the CEB broadened its mandate during the post-Washington Consensus era, through the 1997 Strasbourg Summit that advocated the

CEB incorporate ‘strengthening European social cohesion’ into its mandate and the 2005 Warsaw Summit that called for building a free, democratic, and more inclusive European society; such changes reflected the greater focus on good governance in the post-Washington Consensus period. The EIB became the EIB Group during this period with the incorporation of sibling institutions addressing private sector financing and partnerships, reflecting the expansion of the World Bank into the World Bank Group with the IFC and MIGA.

In Africa, the misfortunes of the EADB continued into the 2000s, not as the result of the economic decline of its members but due to severe mismanagement of finances, leading to several high-ranking officials, including Director General Godfrey Tumusiime, being expelled; it posted losses of millions of dollars. In contrast, BOAD increased its private sector financing, along with a few other smaller MDBs. BOAD originally lent to regional member states but, from 2002, it provided loans to the private sector for development projects of regional significance plus lines of credit to small and medium private enterprises. This can be interpreted as the MDBs following the lead of the World Bank towards more private sector financing products in line with the post-Washington Consensus approach of market-led development.

4.2.3 New MDBs

Just two new MDBs were established between 1998 and 2009 and there was one unsuccessful proposal. The first new MDB, a trade and development bank, was established in 1996 by the Economic Cooperation Organisation (ECO) regional grouping comprised of mainly central Asian states. The ECO Trade and Development Bank (ETDB) was founded by three of the ECO states – Iran, Pakistan, and Turkey with Azerbaijan, Afghanistan, and the Kyrgyz Republic joining later. The ETDB aims simply to expand intra-regional trade and increase economic development. The second new MDB, the Eurasian Development Bank (EDB), was created in 2006 as another post-communist MDB mandated to develop and strengthen market economies, although its member states – the Russian Federation, Kazakhstan, Belarus, Armenia, Tajikistan, and Kyrgyzstan – remain far from model market economies.

The unsuccessful proposal was for a *Banco del Sur* (or Bank of the South), the idea for which was first raised in 2005 between Venezuela and Brazil. It was an expression of Neostructuralism and an indicator of new activism in the Global South. Its proposers were concerned that the South was still depositing large amounts of resources in Global North financial institutions and they wanted to create a new regional financial architecture (Pérez 2009–10, Rosales 2013). Discussions occurred in 2006–7 between Venezuela and Argentina, and they were joined by Brazil and Ecuador. In 2009, an agreement to establish the MDB was signed with eight initial members. In responding to the demands of the different founding member countries, the functions proposed for the MDB were:

> to finance development projects in key sectors of the economy, aimed at improving competitiveness, scientific-technological development, infrastructure, creation and provision of services, intraregional productive complementarity, and the maximization of value added to raw materials produced in the countries of the region.
>
> (cited in Rosales 2013, 31)

Its proposed structure seems rather like a standard MDB: a proposed initial capitalisation of $20 billion, capital raised on bond markets, and weighted voting for large projects and structures matters but one country, one vote for simple operational matters. Its constituent agreement entered into force in 2011 but adequate capital was not paid-in to make it operational. Venezuelan President Nicolás Maduro attempted to revise it in April 2015, but it was not capitalised (Mares and Trinkunas 2016). The proposed *Banco del Sur* was a clear manifestation of Latin American Neostructuralism, and thus part of the broader post-Washington Consensus discourse. It also reopened discussion about the need for public development financing, which the NDB and AIIB continued in the 2010s.

4.3 Retroliberalism and the rise of debt: 2010–20

The progressive changes of the post-Washington Consensus era had come and largely gone by the early 2010s, with the focus turning to the retroliberal – or beyond aid – agenda. The quantity of resources delivered as opposed to the quality of aid effectiveness came to define MDB cooperation documents. The retroliberal agenda first emerged in the early 2000s and began as a slow political reconfiguration away from grant aid. As early as 2002, the International Conference on the Financing of Development in Monterrey made it clear that poor countries were responsible for their own development and that the private sector was expected to be the key course of finance going forward (Saith 2006). And, yet the retroliberal era did not fully emerge until around 2010, catalysed by the upheaval of the GFC.

Ideationally, it was hoped that the 2007–8 GFC would contribute to a broadening of development discourse. And, for a moment in the wake of the crisis, there was a brief flirtation with unorthodox policies, in particular Keynesian stimulus spending and financial controls in order to bail out capitalists but this was followed by a rapid return to austerity politics (Ortiz et al. 2020). The minor changes to regulations such as reforms to the Basel banking rules did not address the systemic risk that had been created by the liberalisation of financial flows, and financialisation revived after the crisis (Gabor 2020, Goldin et al. 2014). Mainstream donors and the MDBs maintained a broadly post-Washington Consensus mindset, but now with an increase emphasis on infrastructure, nationalism, and financialisation – promoting private investment and loans over grant aid. Thus, following Murray and Overton (2016), we label the period from 2010 to 2020 as the retroliberal era.

The term retroliberalism underscores that the policy response to the GFC benefited capital by socialising its losses and leaving labour income to pay for this through public debt. The practice of neoliberalism has always differed from the theory, with centre left and right governments adapting to serve business interests. In the current era, this means a return to a more state-centric and nationalist discourse focussing on the benefits that development aid and finance can provide to private and state firms rather than to poverty reduction. Retroliberalism has also marginalised the SDGs; they may get lip service, but they are no longer at the centre of development thinking. Significantly, the dramatic rise of China and its development strategy has put infrastructure again at the centre of development finance, a resurgence that broadly aligns with the modernisation mentality the World Bank pursued over its first two decades.

China's approach to rapid industrialisation differs radically from the minimalist state agenda of the Washington Consensus and China's influence on development has grown – by 2019, they were the third largest World Bank shareholder and were central to the formation of the NDB and AIIB. This has led scholars like Jakupec and Kelly (2019) and Lin and Wang (2017) to argue that China has created space for the Global South to adopt developmentalist approaches. However, like Yağcı (2016, 43), we argue that while China's experience may be informative for debates about developmentalism, China itself is not concerned with 'enlarging space for developing countries' trade relations and industrialisation efforts.' Rather, the contemporary inegalitarian capital order provides the foundations for China's development, which they support along with the associated global economic governance system (Bond 2015, Robinson 2015).

The expansion of China's mutual aid activities since 2008, notably the Belt and Road Initiative of 2013, was largely in response to domestic stagnation. Its aid promotes retroliberal policies – supporting open markets and broadly neoliberal fiscal and monetary policy, but with increased investment in infrastructure and less interference in state affairs including around human rights. Further, China's policies support their investors, whether they are seeking to source raw materials, outsource elements of low-wage manufacturing, or gain construction contracts outside China using Chinese inputs and labour. Indeed, it is not unwarranted to say that they are often 'kicking away the ladder for developing countries' (Chang 2002). A key issue here is China's extensive use of debt instruments, which previously had been very cautious about. During the 2010s, however, China's approach became a retroliberal one – largely neoliberal policies with a good dash of infrastructure spending, all wrapped up in debt.

China's expansion of debt relations has led the MDBs to expand their loan portfolios and the Global North to expand existing, and create new, bilateral development finance mechanisms, such as the US International Development Finance Corporation or Australia's Infrastructure Financing Facility for the Pacific. Private sector debt has rapidly grown too over the past decade, and in 2018 global debt reached a record high of 230% of GDP. Since 2010, debt in EMDEs 'has risen 54 percentage points of GDP to a historic peak of about 170% of GDP in 2018' (Kose et al. 2020, xix). China itself has also rapidly expanded debt, but they have the advantage of most of their being owed to domestic sources.

Key contributors to the 2010s debt wave are the usual culprits of low interest rates and financialisation, as well as 'a rise of regional banks, growing appetite for local currency bonds, and increased demand for EMDE debt from the expanding non-bank financial sector' (Kose et al. 2020, xxi). The expansion in EMDE debt between 2010 and 2014 was predominantly private sector debt, but from 2014 to 2018 that reversed with publicly guaranteed debt making up the majority. In low-income countries, both public and private debt has grown and there has been a shift away from concessional finance and towards private creditors, although smaller sub-Saharan African states are still primarily reliant on official creditors (Bonizzi, Laskaridis, and Toporowski 2019). According to Kose et al. (2020, 10), this 'wave of debt buildup has been unprecedented in its size, speed, and reach' in EMDEs. It is also more global than previous debt build-up waves occurring since the 1970s, though debt in the Global North has been stable and there have been declines in debt in the Middle East, Eastern Europe, and Central Asia.

4.3.1 Key developments at the World Bank

World Bank President Jim Yong Kim, who led the MDB from 2012 to 2019, with his public health background, seemed to offer a progressive approach to development (see Table 4.3). By the time Kim left the Bank, however, the MDB had doubled down on financialisation. At the same time, networks between the MDBs and DFIs continued to grow. The International Development Finance Club was established by the IMF and Bank in 2011 to help DFIs set agendas on development finance and share know-how. It has six SRDBs and the IsDB as members of its private sector arm, along with Global North and South national development banks and one Exim bank.

Table 4.3 World Bank Presidents 2007–20

Name and term	*Background*	*Legacy*

Name and term	Background	Legacy
Robert B. Zoellick 2007–12	Born in US, attended Swarthmore College and Harvard, spent three decades between private sector firms (including Goldman Sachs) and government appointments in Republican administrations, including Deputy Secretary of State (2005–6).	World Bank President during the 2007–8 GFC, when lending increased to an all-time high. He oversaw the first general capital increase for IBRD in 20 years agreed to in 2010. Involved in an increase in shares for developing and transition countries and agreed to review their position every 5 years. Commissioned Zedillo Report released in 2009 on the World Bank Group's governance structures. Zoellick's presidency focused on good governance and anti-corruption and launched the World Bank's 'open data' initiative.
Jim Yong Kim 2012–19	Born in South Korea, migrated to the US with family at age 5, attended Brown University, obtained MD and PhD from Harvard University, co-founded public health NGO, served as a director in WHO, and worked as university lecturer and administrator.	Kim initiated another major and controversial reorganisation, some of it reversed in 2017. Originally focused on health and human development and approved Framework for Mainstreaming Citizen Engagement. Shifted to focus on financialisation through the Maximising Finance for Development initiative, which was linked to a large capital increase agreed to in 2018 and expanded the role of the IFC. This promoted privatised social services. Kim also set stronger targets for climate finance, ended financing for oil and gas exploration and extraction, and strengthened rules on lending to private banks with fossil fuel investments.
David R. Malpass 2019–	Born in US, attended Colorado College and University of Denver, Georgetown University economist, chief economist of Bear Stearns, held government appointments in Republican administrations.	Warned about the build-up of debt in EMDEs, including debt from IFIs. President during the COVID-19 pandemic, which to mid-2020 involved a $160 billion commitment, with strong emphasis on the IFC.

Source: Compiled by authors from a range of sources, basic details from World Bank website (2019).

World Bank commitments reached an all-time high in 2010 of $58.7 billion, and then dropped substantially to $29 billion in 2012. Yet, this lending interregnum was short. As the investment climate deteriorated mid-decade, states increased public spending, and President Kim announced his 'billions to trillions' agenda in 2013 that aimed to leverage Bank lending to shift from billions of dollars in investments to trillions. Between 2017 and 2019, average annual Bank commitments were $44.8 billion and IBRD gross disbursements were $18.5 billion and IDA gross disbursements totalled $14.9 billion (World Bank 2019).

The ‘billions to trillions’ agenda was followed by Maximising Finance for Development (MFD) in 2017, which sought to leverage official development finance to attract private investment but with a focus on ‘innovative’ financial instruments. The World Bank’s 2018 large shareholding increase (detailed in Chapter 5) was core to this, though it was also likely partly driven by competition with the new MDBs and Chinese development finance. The increase substantially expanded Bank Group lending capacity and is linked to the IDA raising funds on money markets for the first time in its history. With the Trump regime in power in the US, it seems that the shareholder increase came at the price of Kim’s resignation.

The MFD initiatives shows that, despite the havoc wreaked by financialisation in the GFC, the World Bank has become a proponent of it being extended to aid and development finance; the ‘overall strategy is to policy-engineer a shift towards securities-based financial systems and thus render DECs [developing and emerging countries] more amenable to the forces of financialised capitalism’ (Gabor 2018, 16). While the overall strategy is clear, the precise methods for implementation are less so. One method is issuing new kinds of bonds, such as green bonds, IDA bonds, the world’s first blockchain bond, and Indonesian women’s empowerment bonds (World Bank 2019). A second method is the ‘cascade approach’ that identifies imperfections that may be stopping private capital from investing in projects. If addressing the imperfection is not enough, subsidies and guarantees may be needed to leverage private investment and only when such reforms are still not attracting private investment can public investment be considered (Gabor 2018). It thus combines an ideological preference for private investment over public regardless of profitability or efficiency, with a preference for financialised capitalism over traditional banking. For example, the Bank issued catastrophe bonds in 2016 through the Pandemic Emergency Financing Facility (PEFF), a mechanism pioneered by insurance companies to pay high interest rates on the basis that investors may lose some of or all their money. The Bank’s PEFF bond had a complex set of triggers before they could be paid out, leading to an expectation that they would not be. But, the COVID-19 crisis met all the triggers and so investors lost their principal (Mackenzie 2020). The Bank created PEFF bonds to build a new market in securitised risk but given most investors are loss adverse, they will be less likely to purchase them again in the future (Mackenzie 2020). More to the point, such innovative financial instruments may have a strong structure, ‘but from almost any angle, they look fundamentally ill-suited to protecting vulnerable people from diseases, disaster, or climate change’ (Mackenzie 2020).

With Trump appointee David Malpass as the incumbent president (see Table 4.3), the Bank became more concerned with the growth of debt, which the IMF had been warning about for a few years. Yet, the COVID-19 pandemic has left no option but for a big increase in lending as bilateral donors are not increasing grant resources. The Bank has said they will provide $160 billion in frontloaded funds to help states respond to the crisis and other MDBs will private $80 billion. They are also frontloading grants through their COVID-19 Fast Track Facility, but more loans will follow.

In 2020, the Bank Group’s ambitious mission was to end extreme poverty by decreasing the percentage of people living on less than $1.90 a day to no more than 3% by 2030 and to promote shared prosperity by fostering the income growth of the bottom 40% of people in every country. But, just like the MDGs, this formulation is an accounting illusion that narrowly focusses on inequality by promoting income growth. This brings us back to the centrality of the Bank’s original purposes, which can be summarised as facilitating investment in productive purposes and promoting private investment and trade.

4.3.2 Key developments in other MDBs

The late 2000s and 2010s saw an across-the-board improvement in the organisational functioning and loan portfolios of the regional, sub-regional, and specialised development banks, particularly among a few smaller MDBs that had struggled during the 1980s and 1990s. Such improvements coincided with organisational restructurings, an expansion of capital availability, and new leadership. In the case of the RDBs, however, most of which had also lent counter-cyclically during the 2007–8 GFC, they had a larger decline in lending in the early 2010s than the World Bank, which has been attributed to downward pressure from credit rating agencies (Delikanli, Dimitrov, and Agolli 2018).

In the case of the SRDBs, successful reform occurred across several continents. In Africa, the EADB went from severe financial mismanagement during the 2000s to significant organisational restructuring and the recovery of outstanding loans under Director General Vivienne Yeda, who was appointed in 2009. As a result, Yeda received several financial and banking awards, including the African Banker of the Year Award in 2014. At the TDB, President Adamassu Tadesse, who received the same African Banker Award in 2019, spearheaded a dramatic reformation of the African SRDB, including growing equity capital and annual profits four-fold between 2012 and 2019, attracting 15 new shareholders, and receiving the TDB's first investment grade rating from Moody's in 2017 (Africa Fintech Summit 2019). The TDB's reform process began in 2000 and the overall result is that it is now substantially larger than the four African SRDBs that were created before it (Humphrey 2019). In Latin America, CAF came to rival the IADB and exceed World Bank Latin American and Caribbean commitments during the 2010s, which is indicative of the change in fortunes and expansion of operations of so many MDBs (Humphrey 2014, 2016).

In Europe, the NDF, after almost being dissolved in the 2000s, instituted a series of institutional reforms in 2009, shifting its mandate from soft loans for social and economic development to grants for climate change interventions in low-income countries (Amland 2018, Normann 2019). This was an attempt to not only satisfy the competing interests of its Nordic shareholders but also to better find its niche within MDF (Wihtol 2013). The CEB, its relevance revitalised in the 1990s with the collapse of the Soviet Union and reintegration of people from the former Soviet bloc into capitalist Europe, renewed its pertinence once again in response to the refugee crisis affecting Europe since the mid-2010s.

In Eastern Europe and Central Asia, the IIB underwent considerable restructuring in 2012. Following two decades of stagnation in the wake of the Soviet Union's collapse, new management entered the former Soviet-led MDB to make it a modern-day development bank. A revised agreement in 2014 saw it shift to a much more capitalist agenda of 'promoting economic growth, increasing the competitiveness of national economies, expanding trade and economic ties, and maximising investment interaction opportunities' (IIB 2018, 1). The IIB also entered debt capital markets in

2014, the first time in its history, and began issuing bonds in Russia, Slovakia, and Romania.

In a range of ways, the 2010s saw a closer alignment between the MDBs as to what a development bank 'should' look like. In addition to broad harmonisation efforts, another example is the increasingly close alignment on climate finance following the 2015 Paris Agreement (see Chapter 10) and further many MDBs followed the World Bank's lead in increasing their financial innovation engagement.

4.3.3 New MDBs

Two new MDBs emerged during the retroliberal era, the NDB and AIIB, and they were designed as traditional development banks. The NDB (2015, 1) adopts neutral language in its purposes, aiming to 'mobilize resources for infrastructure and sustainable development projects in BRICS and other emerging economies and developing countries,' and the AIIB (2015, 2), largely duplicating the AsDB's Charter, has a strong profit focus prioritising 'infrastructure and other productive sectors,' despite being founded by an ostensibly socialist state. The absence of references to poverty reduction in the NDB and AIIB's founding documents speaks to them being business-link banks, at odds with the SDGs; the new MDBs conform to the 'GDP-centred, Northern-development-model approach' (Dossani 2014).

Promoting private capital is remarkably prominent in the AIIB's Articles of Agreement, giving the MDB responsibility for its promotion in the region. The Articles suggest that, as argued above, the practice of this China-led development financier is not much friendly to the state than the old traditional MDBs. The NDB is a little more conspicuous in its purposes, referring to 'support' for public and private projects. The similarities of purposes and inclusion of facilitating private investment demonstrates that the new MDBs aim to promote debt-based, capitalist expansion in the same way as the old ones have.

4.4 Conclusion

There are so many dimensions to the MDBs discussed in Chapters 3 and 4 that it is hard to offer simple conclusions. The chapters highlight the connections between MDB creation, geopolitics, economic theory, and debt. They demonstrate that there is a fair degree of coherence around the aims and objectives of the MDBs; almost all exhibit a Keynesian influence, which is not surprising given their logic is the Keynesian idea that markets will not always ensure adequate levels of investment. Some are more statist, others more pragmatic, and the EBRD brought in a neoliberal tone, but, in the end, they are all focussed on promoting market-based economic growth in line with banking principles. There is a remarkable consensus around the need for more and more debt to promote economic growth, despite there still being no orderly default and restructuring mechanism for states at the international level.

Many of the MDBs started out with strong regional missions but few have been able to live up to them in practice; not many governments want to be burdened by joint loans that they may not get an equal share of benefits from. This demonstrates the dominance of the state in development discourse and it permeates the analysis and lending strategies of the MDBs too. The MDBs have helped naturalise the idea that states are actual and effective units that can control development challenges at the same time as their banking and neoliberal logics lead them to want to constrain the state and promote the benefits of markets. This is the tension at the heart of the MDBs.

The durability of the MDB model and the MDBs themselves are further factors that leap out of the analysis – 'once established MDBs do not disappear, but rather transform and evolve' (Delikanli, Dimitrov, and Agolli 2018, 21). The BDEGL is the only suspended MDB we have found and even it still exists on paper. Still, as the chapter demonstrates, many MDBs have faced challenges. Nonetheless, they are substantial financial actors. The 23 MDBs studied by Delikanli, Dimitrov, and Agolli (2018, 49) had a total portfolio (loans, equity investments, and debt securities) of $1.13 trillion in 2016 or 1.6% of world GDP, which was a decline from earlier in the decade. In addition, states have turned to the idea of creating new MDBs time and again when faced with obstacles, which suggests they consider productive investment of the trillions of dollars that now float around the world is an ongoing challenge. States seem to like the influence that MDBs provide and, as Chapter 5 shows, once established MDBs are quite cheap for them. The next chapter focusses on the structure of the MDBs and it emphasises how their structure as banks has been a longunderestimated influence. Indeed, Kapur, Lewis, and Webb (1997, 1111) note that at times the World Bank's 'financial and development personas' have been 'more competitive than complementary.'

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5 The structure of multilateral development banks

This chapter analyses the structure of the MDBs, positioning the World Bank as the archetype and exploring how the other MDBs are similar or different. The chapter starts with voting systems and capital subscriptions and how these have shaped Bank operations. Next, the Bank's governance structure is outlined, analysing the relative influence of its Governors, Directors, and senior management. The chapter then turns to the Bank's lending system – types of loans, conditionality, procurement, and interest rates. Table 5.2 systematically compares the Bank's structures to those of other MDBs, highlighting organisational convergences and divergences.